

# Industry Assessment of Automobile Dealership Industry in India

September 2022

Group Landmark

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# 1. Overview of Global Economy

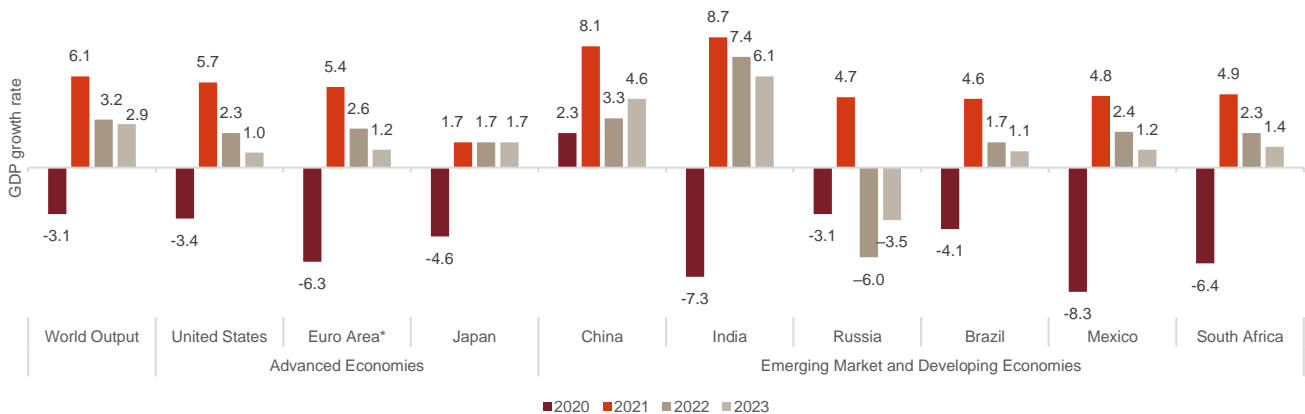
## Review and outlook of economic growth and inflation in key global economies

After a normal 2.8% growth in 2019, global economy contracted 3.1 % in 2020 amidst the Covid pandemic. Euro area witnessed 6.3% drop while even emerging economies like India, Mexico and South Africa saw their GDP contract significantly. China was one of the major countries which witnessed growth in 2020 limiting the world GDP contraction. On a low base of 2020, world output clocked 6.1% growth in 2021.

The global economy is projected to grow at a rate of 3.2% in 2022. The 2022 global forecast was tapered down by 0.4% from the April 2022 outlook. Prospects for emerging market and developing economies too have been marked down by 0.2% for 2022, especially for Emerging Asia (-0.8%). Similarly, the forecast for advanced economies have also been cut down by 0.8%. These revisions reflect the high inflation around the world, reduced purchasing power of households and the tighter monetary policy across the board.

Amongst the advanced economies, Japan is estimated to have the fastest growth of 1.7% in 2023 while in the emerging economies, India is expected to grow the fastest at a rate of 6.1% during the same period. It is followed by China growing at a rate of 4.6%. The war in Ukraine and sanctions have hindered Russia’s growth estimates for 2023 – the country is expected to have a degrowth of -3.5%.

### IMF estimates of real GDP growth for key economies

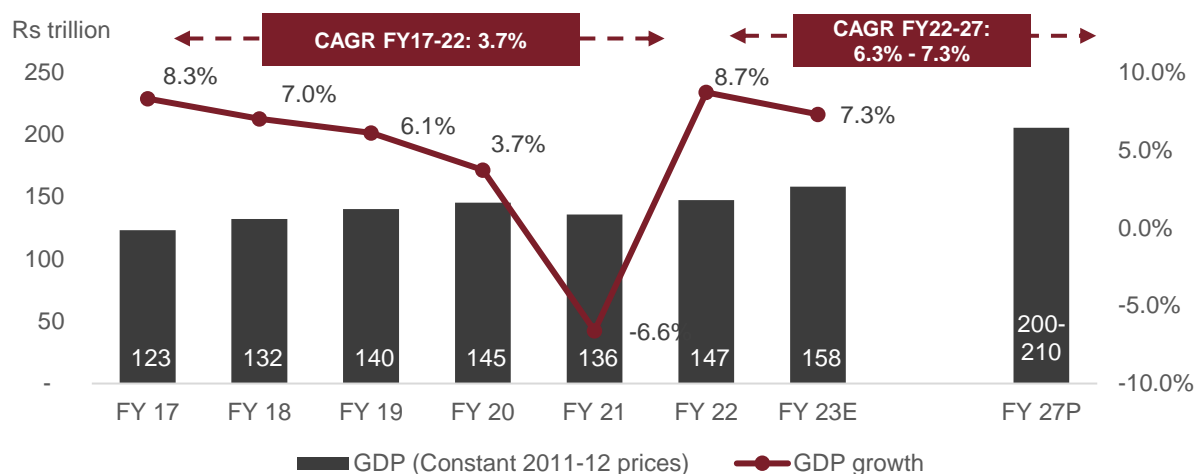


Note: \*Euro area includes 19 member states of the European Union

Source: IMF (World Economic Outlook – July 2022 update), CRISIL Research

## 2. Overview of Indian Economy

Real GDP is expected to grow at 7.3% y-o-y in fiscal 2023



Note: E- Estimated P – Projected

Source: National Statistics Office (NSO), IMF, CRISIL Research estimates

The latest provisional estimates released by the National Statistical Office peg India's real gross domestic product (GDP) growth at 8.7% last fiscal, a tad slower than 8.9% according to the second advance estimate released in February 2022. In absolute terms, real GDP for fiscal 2022 is now estimated at Rs 147.35 lakh crore, marginally less than Rs 147.72 lakh crore estimated earlier. The downward revision reflects a minor correction in the first to third quarter (Q1-Q3) GDP numbers, and a mild impact of the third Covid-19 wave and the Russia-Ukraine war in the fourth quarter (Q4).

While the provisional estimates show a mild reduction in the overall size of the GDP, estimates of private final consumption expenditure (PFCE) and gross fixed capital formation (GFCF) – the biggest two demand-side drivers – were marginally notched up. The latter suggests the government's continued focus on capital expenditure (capex). PFCE at Rs 83.8 lakh crore in fiscal 2022, however, is still just 1.4% (compared with 1.2% earlier) above the fiscal 2020 level and was the slowest to recover. Moreover, it faces strong headwinds from rising inflation. Given the sharp rise in international commodity prices, following the Russia-Ukraine war, India's import bill went up at a faster rate than exports, resulting in a greater drag on the economy in fiscal 2022 than estimated earlier.

### GDP to recover over the medium term

Macro variables	FY21	FY22	FY23P	Rationale for outlook
GDP (% , y-o-y)	-6.6%	8.7%	7.3%	<p>It is important to bear in mind that, given the large output loss due to the pandemic, GDP is only 1.5% above the pre-pandemic (fiscal 2020) level</p> <p>Gross value added – the supply-side and firmer measure of the economy – rose 8.1% in fiscal 2022 (down from previous estimate of 8.3%), compared with a 4.8% contraction in fiscal 2021</p> <p>Higher inflation, monetary policy tightening, dormant private capex growth, the power crunch and the global growth</p>

Macro variables	FY21	FY22	FY23P	Rationale for outlook
				slowdown pose medium-term headwinds expected to restrict growth outlook for fiscal 2023 at 7.3%

Note: P - Projected

Source: RBI, NSO, CRISIL Research

## India's GDP will still grow faster than the world's

India was one of the fastest-growing economies in the world with annual growth of around 6.7% in between 2014 to 2019 (Fiscal 2015- fiscal 2020). Over the past four fiscals, India's macroeconomic situation has gradually improved: the twin deficits (current account and fiscal) have been narrowing and the growth-inflation mix has improved, and durably so.

The growth outlook for fiscal 2023 is fettered by multiple risks. Global growth is projected to slow, as central banks in major economies withdraw easy monetary policies to tackle escalating inflation. This, together with high commodity prices, especially oil, translates into a negative terms of trade shock for India. At the same time, higher and broad-based inflation domestically will create a drag on consumption revival. Uncertainty due to the Russia-Ukraine conflict could put some of the private capex plans on the back burner. In fact, higher input prices could also result in lower government capex, which has already seen fiscal space shrink with attention shifting to relief measures, to fight rising inflation. Amid this gloomy scenario, the forecast of a normal monsoon comes as a silver lining. CRISIL Research also expects the gaining momentum in contact-intensive services to be broad-based and support growth. On balance, CRISIL maintains its real GDP growth projection for fiscal 2023 at 7.3%, with risks tilted to the downside.

## Increasing per-capita GDP

Per-capita GDP is estimated to have dropped by 7.6% in fiscal 2021, compared with the growth of 3% in the preceding fiscal. During fiscal 2022, per capita GDP grew by 7.6% due to revival of the economy.

Per capita GDP	Level in FY22 (INR- '000)		Growth at constant prices (%)									
	Current prices	Constant prices	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
	172	107	3.3	4.6	6.2	6.7	6.8	5.7	5.8	3.1	-7.6	7.6

Source: National accounts statistics 2022- MOSPI, CRISIL Research

## Impact of Government policies on automobile industry

### Increase in interest rates

During the year, Reserve Bank of India (RBI) has changed its stance and increased the policy repo rate by 1.4% to 5.4% (as of September 2022) to take it to the pre-pandemic levels, as the monetary authority seeks to bring down inflation to its comfort band and in line with policy tightening by key central banks.

The automotive industry, as it is, is known to be sensitive towards interest rate hikes due to the nature of business. The increase in the interest rate would make servicing of debt even more expensive. Both the demand and supply side would be affected to this increase. The costs for companies would increase, in which case it would be crucial

for them to sell more to maintain their margins while on the demand side, customers will have to pay more due to the increase in auto loan premiums and insurance.

### Fuel prices crossing Rs 100

Fuel prices (petrol as well as diesel) in the last few months have increased massively for the vehicle owners. It has dented the consumer sentiment hurting auto sales. The Rs 100 per litre barrier breaching petrol and diesel prices in several cities across India has impacted sale of passenger vehicles and two-wheelers.

### Pressure points in the agricultural sector

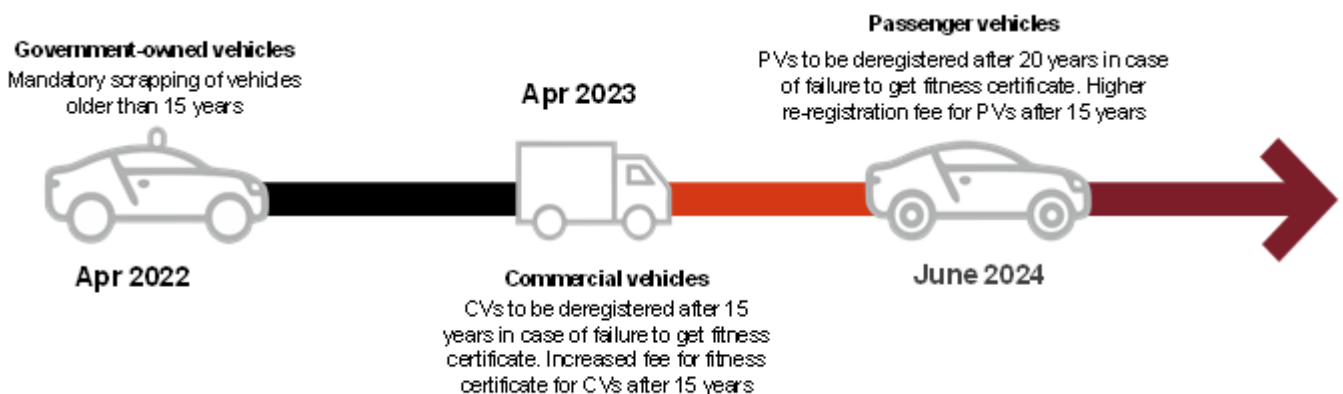
Although on the supply side, agriculture maintained a robust performance (with real growth rising to 4.1% in Q4 fiscal 2022 from 2.5% in Q3 fiscal 2022), despite some negative impact of heat waves on crop output to an extent, sowing is lower on-year for major kharif crops, such as rice and arhar. Wheat supplies are expected to remain tight until fresh rabi supplies after March. The Food and Agriculture Organization's (FAO) global food price index also remains 13.1% higher on-year in July.

Producers are expected to pass through costs to consumer prices to a greater extent amid recovering demand. The RBI's latest surveys of manufacturing and services sectors indicate firms to increase selling prices in the remainder of the fiscal.

### Scrappage Policy

As things stand, India is home to six of the top 10 polluting cities, globally, and is among the top five polluting countries. With vehicular pollution contributing nearly 15-30% (PM2.5 and PM10 level), especially in cities such as Delhi, the government is putting greater emphasis on weeding out old polluting vehicles (older vehicles are estimated to be 10-12 times more polluting than newer ones) through the scrappage policy.

The process kicked off in May 2016, with the Ministry of Road Transport and Highways (MoRTH) issuing a concept paper outlining the Voluntary Vehicle Fleet Modernisation Programme to encourage scrapping of vehicles manufactured before March 31, 2005. And in March 2021, MoRTH announced guidelines for the policy:



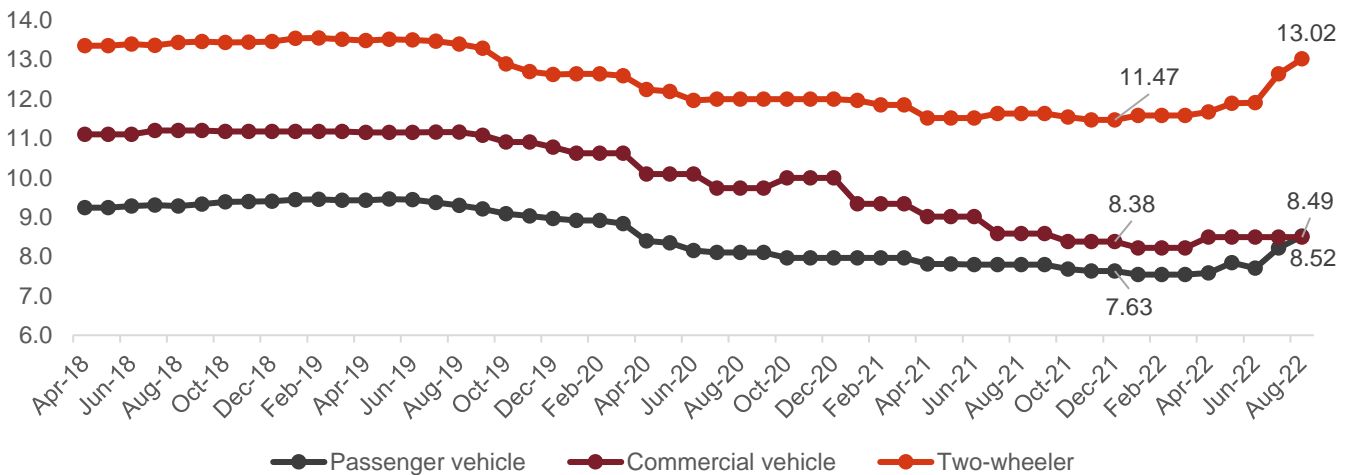
## Auto finance

### Impact of increased repo rates

Yields in the auto finance segment in India were declining over the past two-three years, due to softening of retail inflation and a fall in G-sec yields. With the implementation of the marginal cost of funds-based lending rate (MCLR) regime from April 1, 2016, auto finance rates have remained subdued, as banks have been forced to pass on benefits of softer interest rate to end-consumers. This has brought yields down 100-130 bps since fiscal 2015.

But ever since RBI started increasing the repo rate since May 2022, interest rates are on the rise. The average finance rate for 2Ws increased by 135 bps and for PVs it increased by 94 bps from May 2022 to August 2022.

### Average auto finance rates offered by banks (%)



Source: Industry, CRISIL Research

### Easing chip shortage and revival in sales to drive disbursements in fiscal 2023

Auto finance disbursements had taken a hit in fiscal 2021 and remained muted for some segments in fiscal 2022 as well, due to the stress induced by the two Covid-19 waves. Disbursements are expected to pick up in fiscal 2023 supported by the revival in underlying sales, continued rise in vehicle prices along with a healthy offtake from the domestic front and the easing of chip shortage, which will ensure the industry clocking healthy disbursement growth.

In case of commercial vehicles (CVs), with the recovery in economic activity, CRISIL Research expects demand to pick up, driving utilisation rates for CVs. Replacement demand is likely to be positive in fiscal 2023 since some replacement sales expected in fiscal 2021 and fiscal 2022, would have been deferred.

In case of passenger vehicles (PVs), due to improvement in the supply of chips and agile production strategies adopted by original equipment manufacturers (OEMs), volumes improved in the fourth quarter of fiscal 2022. CRISIL Research expects growth to continue in this fiscal with the semiconductor shortage improving and support from pent-up demand.

Recovery in scooter sales is likely to push two-wheeler volumes, with educational institutions and offices re-opening, more people commuting to office, and urban income sentiment improving. The normal monsoon forecast is also expected to support demand for motorcycles.

Overall, CRISIL Research expects a pickup in overall vehicle sales and improved loan-to-value (LTV) across segments in this fiscal, resulting in overall disbursements growing 16-18% in fiscal 2023.

### YoY growth in auto finance disbursement (%)

Segment	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
PV – new	17%	9%	-9%	-4%	24%	22% - 26%	11% - 15%
CV – new	37%	22%	-36%	-6%	46%	22% - 26%	16% - 20%
Two-wheelers	31%	17%	-2%	-5%	-6%	16% - 20%	14% - 18%

Source: Industry, CRISIL Research

### Impact of PLI on automotive industry

The government has budgeted ~Rs 1.7 lakh crore as production-linked incentives to local manufacturing units in 13 key sectors. The key sectors likely to benefit from the scheme include automobiles, pharma, telecom, electronics, food, textiles, steel and energy.

Sector	Segment	Budgeted (Rs crore) *	
Automobiles	Advance chemistry cell (ACC) battery	18,100	44,038
	Automobiles and auto components	25,938	

\*Approved financial outlay over a five-year period

Source: Government websites, CRISIL Research

A year later, the Production Linked Incentive (PLI) Scheme for Automobile and Auto Component was able to attract proposed investment of ₹74,850 crore against the target estimate of investment ₹ 42,500 crore over a period of five years. The scheme has two components viz. Champion OEM incentive scheme and Component Champion incentive scheme. Total 95 applicants have been approved under this PLI scheme. MHI had earlier approved 20 applicants (along with their 12 subsidiaries) for Champion OEM Incentive scheme. Subsequently, MHI has processed the applications received under Component Champion incentive scheme and 75 applicants (along with their 56 subsidiaries) have been approved under this category of the scheme. Two Auto OEM companies have been approved for both the parts of the scheme.

Apart from Indian business groups, approved applicants include groups from countries such as Japan, Germany, USA, UK, Republic of Korea, Ireland, France, Belgium, Netherlands and Italy. This PLI Scheme for automotive sector (₹25,938 crore), along with the already launched PLI scheme for Advanced Chemistry Cell (ACC) (₹18,100 crore) and Faster Adaption of Manufacturing of Electric Vehicles (FAME) (₹10,000 crore) will enable India to leapfrog from traditional fossil fuel-based automobile transportation system to environmentally cleaner, sustainable, and more efficient Electric Vehicles (EV) based system.



### 3. Review and outlook of Indian passenger vehicle industry

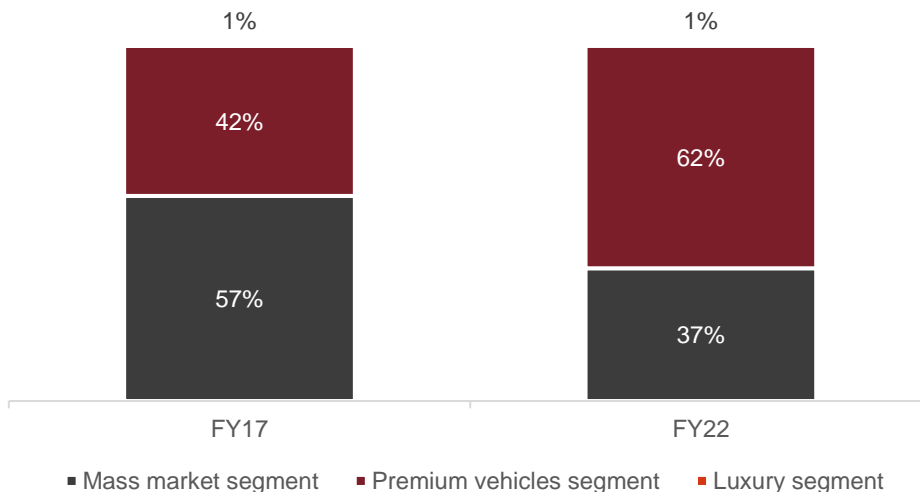
#### Review of the Indian passenger vehicle industry (fiscals 2017 – 2022)

Indian domestic market can be broadly classified into 3 main segments, mass market vehicles, premium vehicles and luxury vehicles.

Mass market segment mainly comprises of basic vehicles which are preferred the most in India. It encompasses micro, mini, lower compact and vans segments. Premium vehicles are costlier vehicles typically preferred by upper middle class and rich class. It includes upper compact, super compact, executive, premium and utility vehicles. This segment is getting more and more traction with increasing disposable incomes, higher launches and shifting customer preferences from mass market to premium vehicles.

Luxury vehicles is a niche segment offering high end vehicles at very premium prices, mainly preferred by high-net-worth individuals and organisations. Vehicles of Mercedes, BMW, Audi, Volvo and JLR are part of this segment. The share of ultraluxury market comprising of brands like Ferrari, Lamborghini, Bugatti, Rolls Royce is insignificant in India.

#### PV industry split



Note:

Mass market segment: Micro, mini, lower compact and vans segments

Premium segment: upper compact, super compact, executive, premium and utility vehicles

Luxury segment: Highly Premium vehicles offered by Mercedes, Audi, BMW, JLR, Volvo.

Source: SIAM- Society of Indian Automobile Manufacturers, CRISIL Research

#### Historical domestic (mass market + premium vehicles) sales development (fiscals 2017- 2022)

The domestic (mass+ premium market) PV industry grew 5.3% between fiscals 2017 and 2019, led by strong growth in utility vehicles (UVs + vans), which rose 11% versus cars, which grew 2.7% during the same period. Improving economic scenario, higher affordability, and new model launches drove demand during this period.

Drop in economic growth put pressure on vehicle sales during fiscal 2020. Moreover, cut in BSIV vehicle production amidst the mandatory implementation of BSVI norms from fiscal 2021, exerted added pressure during the year. Industry also lost nearly half month's sale during the year end due to the emergence of the pandemic and subsequent lockdown.

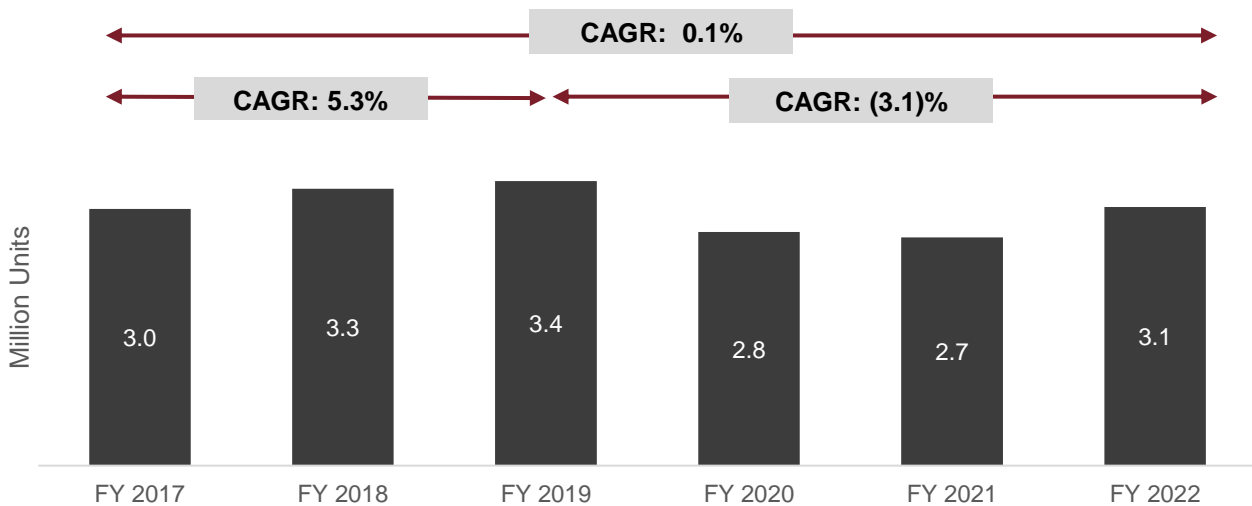
Sales in fiscal 2021 were marred by the first wave of the pandemic. National lockdown, reduced mobility, supply constraints amidst production cuts weighted on the annual sales. Despite some improvement in sales with reopening of the economy, increased need for personal mobility during the second half of the year; sales contracted ~2.2% on an already low base of fiscal 2020.

Fiscal 2022 began with a much severe second wave of the pandemic. Nationwide lockdown, economic uncertainty, struggling vehicle supply, increased waiting period impacted the sales especially in the first half the year.

There was some improvement in the economic scenario and in turn the market sentiments with reopening the markets during the second half of the fiscal. Pent up vehicle demand, increased need of personal mobility, improved in supply scenario provided the thrust to the passenger vehicle sales demand during the second half.

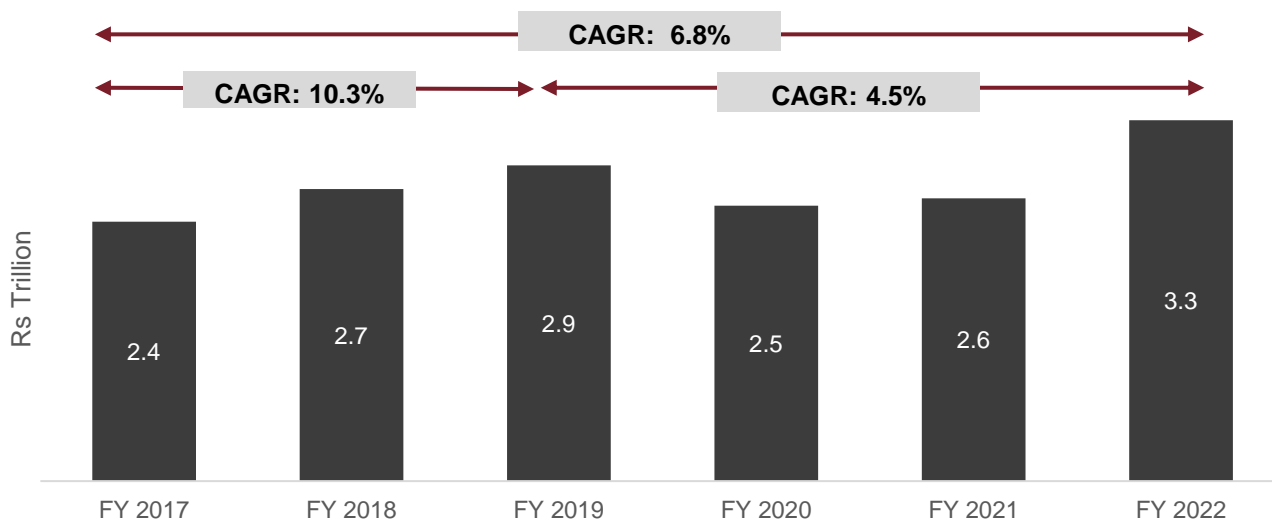
After a two-year consecutive drop, passenger vehicle sales rose 13% on a very low base of fiscal 2021.

**Review of PV domestic (mass+premium market) sales volumes**



Source: SIAM- Society of Indian Automobile Manufacturers, CRISIL Research

## Review of PV domestic (mass+premium market) sales value



Source: SIAM- Society of Indian Automobile Manufacturers, CRISIL Research

Annual price hike as well as increase in vehicle prices to comply with emission norms increased average prices and provided an additional boost to the industry value during fiscal 2021. Hence despite a 2.2% drop in volumes, industry value rose 3% during the fiscal.

Rise in sales volumes coupled with increased vehicle prices to compensate for commodity price hike, boosted the industry value in fiscal 2022. Premiumization and the increased demand for the pricier UVs provided an additional kicker to the industry value.

## Split of domestic industry volumes by PV segments

Small cars have a major share in total PV domestic volumes, as their lower ticket size makes them affordable to the average Indian consumer and ideal for first-time car buyers. The UV segment, which traditionally appealed to customers who valued larger seating capacity and ability to drive on rough rural roads, witnessed a major shift in customer preference with the launch of compact UVs.

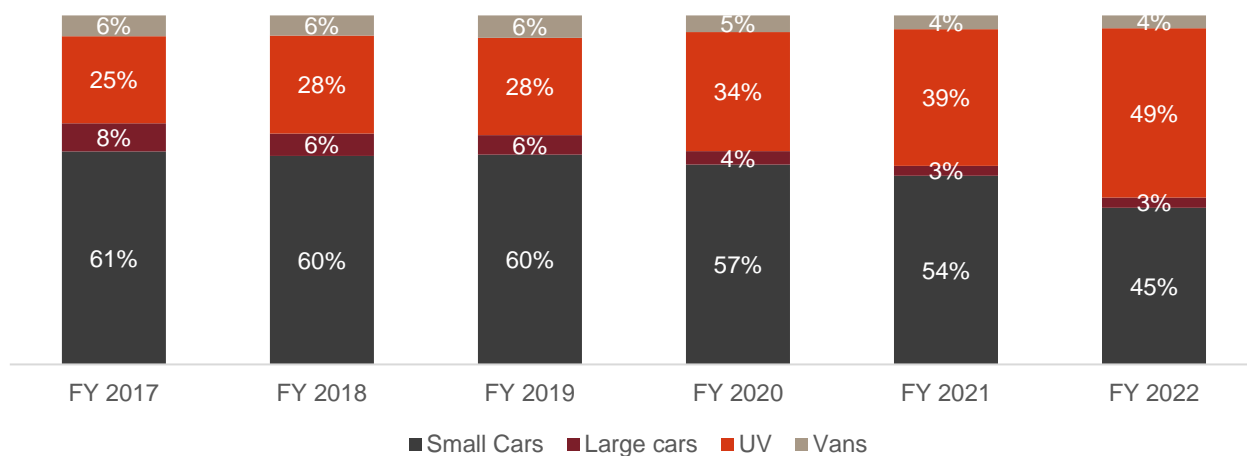
The size of large car segment has gradually shrunk, mainly due to shift in customer preference towards SUV segment, few model launches and availability of high-end technology features in SUV segment as compared to large car segment. With a sharp growth in UV segment, share of other segments, including the dominant small cars segment has gone down over the years.

Share of small cars has contracted from 61% in fiscal 2017 to 45% in fiscal 2022. Introduction of compact UVs in fiscal 2016 accelerated the shift towards UVs. Intermittent feature rich vehicle launches at competitive prices backed the healthy growth of the UV segment.

UV segment clocked a 14% CAGR during fiscal 2017-2022 period while the small cars segment contracted at 6% CAGR during the same period. Relatively smaller, the sedan/large cars segment contracted at 18% CAGR during the same period.

In fact, during fiscal 2022, UV segment witnessed a phenomenal growth of 40% y-o-y supported by pent up demand, improvement in the economic scenario as well as ironing out of the supply constraints.

## PV domestic (mass+premium market) sales split by vehicle segments (in volume terms)



Source: SIAM, CRISIL Research

Segment	FY 2017-FY2019 CAGR	FY 2019-FY2022 CAGR	FY 2017-FY2022 CAGR
Small Cars	4.4 %	(12) %	(6) %
Large Cars	(12) %	(22) %	(18) %
UVs	11 %	16 %	14 %
Vans	9 %	(19) %	(9) %
Total market	5 %	(3) %	0.1 %

Source: SIAM, CRISIL Research

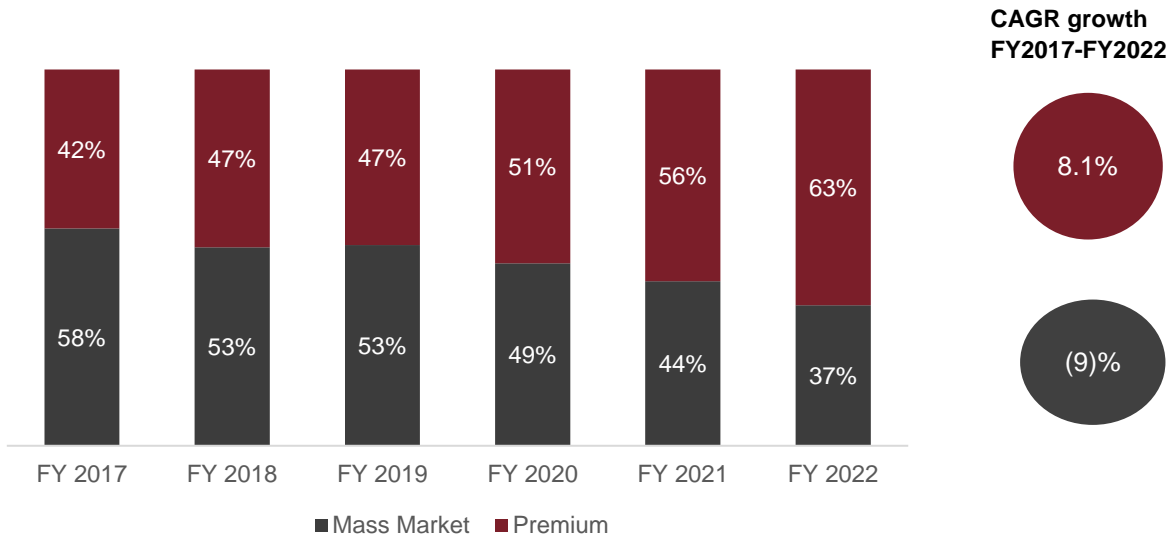
Industry can also be divided in terms of mass market vehicles and premium vehicles. Mass market vehicles encompass the basic hatchbacks like Alto, WagonR, sub-4 meter sedans like Dzire, Amaze, Xcent and vans while the premium segment comprises of premium hatchbacks, large sedans and UVs.

Mass market vehicles have dominated the PV industry for years. This relatively cheaper segment has been losing share with customer preferring premium hatchbacks like i20, Baleno and UVs over basic small cars. The share of mass market vehicles has been on contracting and share of premium vehicles is rising backed by increasing disposable incomes, customer preference shifting towards premium vehicles, much higher number of launches in the premium segment.

Introduction of compact UVs accelerated the shift towards premium segment from fiscal 2016. Premium segment which consists of premium hatchbacks, compact UVs, MPVs has been fast expanding its presence. More launches, younger buyers, feature rich competitively priced vehicles, increasing consumer aspirations, entry of new players has provided the thrust to this segment.

In the last 5 years, premium segment has clocked a healthy growth of 8.1% while the mass market segment has contracted at 9% CAGR. The trend is expected to continue going ahead.

**PV domestic market split between mass market & premium market**



Source: SIAM, CRISIL Research

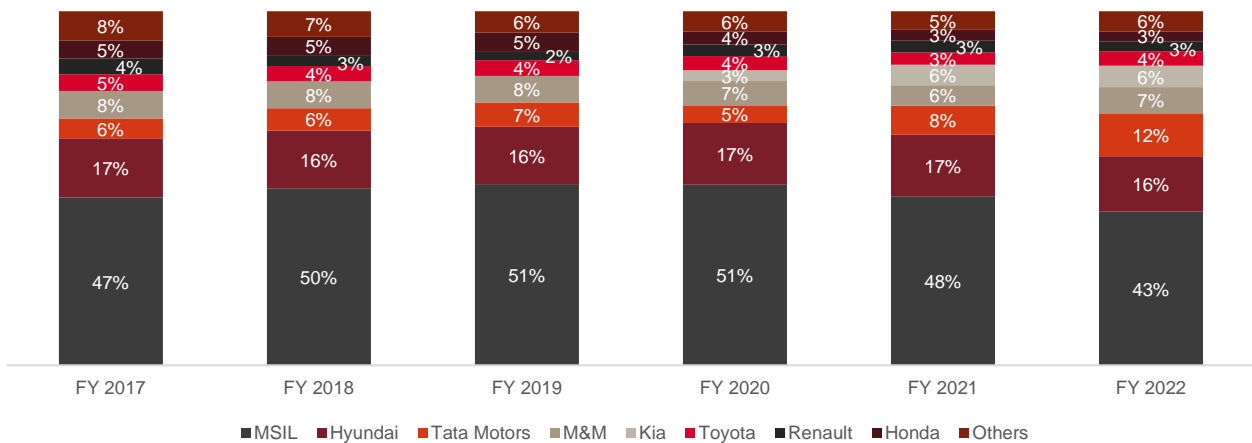
**Competitive landscape**

MSIL is the dominant player in the industry. With strong disposition of Indian customers for basic hatchbacks, Maruti led the industry for decades with 50% and above market share.

The changing preference for premium cars and UVs provided a boost to other players like Tata Motors and Kia. Hyundai has managed to maintain its second position in the industry.

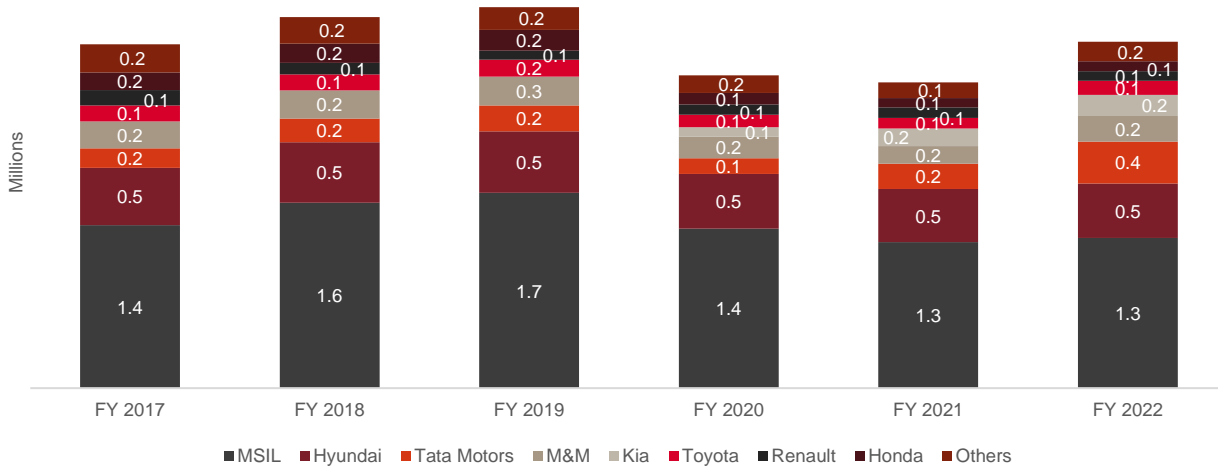
As of fiscal 2022, MSIL, Hyundai, Tata Motors, M&M and Kia motors are the top five players in the industry.

**PV domestic sales (mass+ premium market) share across OEMs/ brands (in volume terms)**



Source: SIAM, CRISIL Research

**PV industry (mass + premium market) split by volume of domestic sales across OEMs/ brands**



Source: SIAM, CRISIL Research

**Brand wise sales trend (thousand units)**

Player	FY 2017	FY 2018	FY 2019	FY 2020	FY2021	FY2022	CAGR FY (17-22)	Share in FY2022
Maruti Suzuki India	1444	1643	1730	1414	1294	1332	(2) %	43.4%
Hyundai Motor India	510	536	545	485	472	482	(1) %	15.7%
Tata Motors	173	210	232	138	224	373	17 %	12.2%
Mahindra & Mahindra	236	250	255	189	157	226	(1) %	7.4%
Honda Cars India	157	170	184	102	82	86	(11) %	2.8%
Renault India	135	102	80	90	92	87	(8) %	2.8%
Volkswagen	50	45	35	26	20	32	(9) %	1.0%
Fiat (Jeep)	6	21	17	9	7	12	16 %	0.4%

Source: SIAM, CRISIL Research

Within the PV market, cars form a major share (55-60%), with the rest comprising UVs and vans. The UV segment has been outpacing the cars segment, backed by shifting customer preference, increased pace of launches and competitive pricing. As of fiscal 2022, UVs outgrew cars for the first time and contributed 49% to the industry sales vis a vis 48% contributed by cars.

The luxury car segment is relatively limited in India, dominated by European brands Mercedes, BMW, Jaguar Land Rover (JLR), Volvo and Audi, with Mercedes being the market leader.

## State-wise split of domestic (mass + premium) market

Maharashtra, Uttar Pradesh, Gujarat, Karnataka, Tamil Nadu, Kerala and Haryana cumulatively make up over half of the total demand for PVs in the country. In fiscal 2022, these seven states contributed 54% to the overall domestic sales.

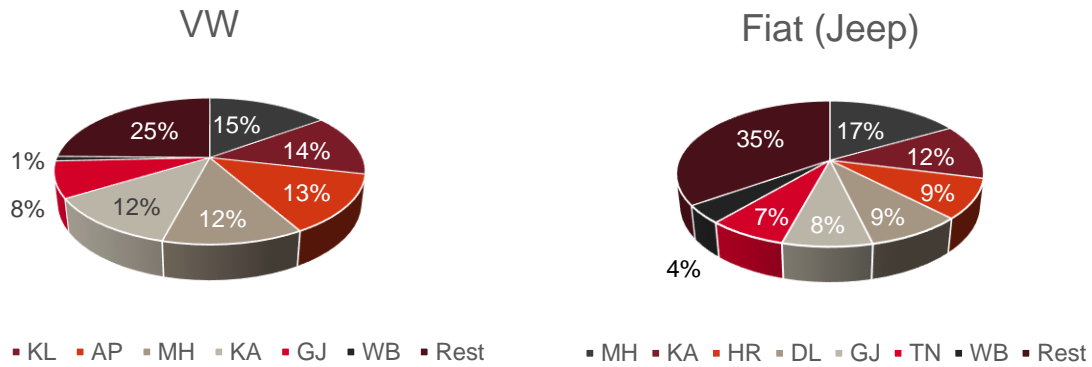
### State wise contribution to national sales,

State	Fiscal 2022 sales ('000)	Share in national sales
Maharashtra	342	11%
Uttar Pradesh	289	9%
Gujarat	266	9%
Karnataka	205	7%
Tamil Nadu	196	6%
Kerala	189	6%
Haryana	186	6%
Rajasthan	151	5%
Telangana	149	5%
Delhi	144	5%
Madhya Pradesh	126	4%
Punjab	107	4%
Andhra Pradesh	101	3%
West Bengal	97	3%
Others	611	17%

Source: SIAM, CRISIL Research

### State wise contribution to national OEM sales





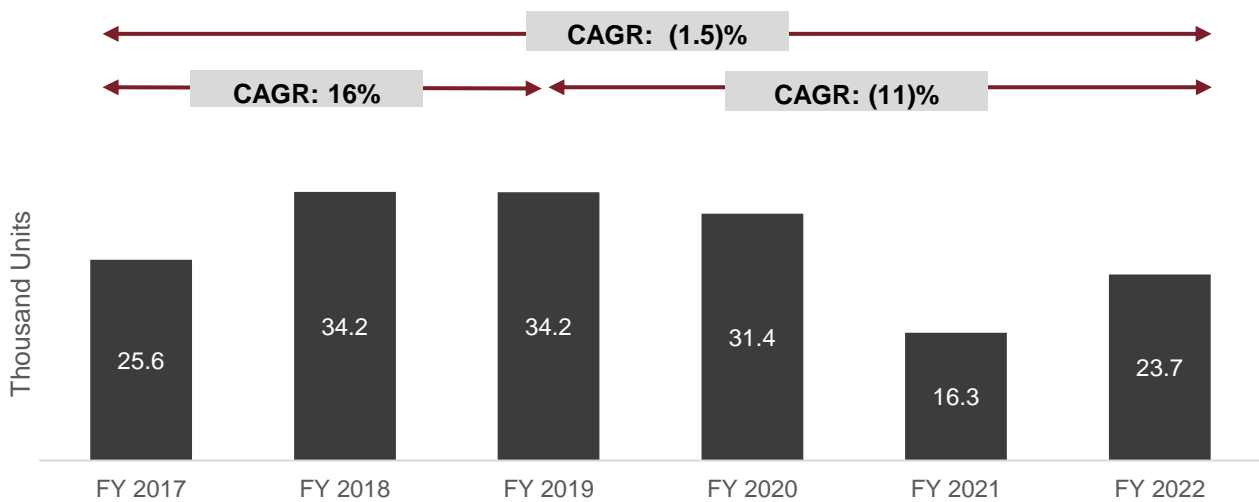
Source: SIAM, CRISIL Research

### Luxury cars segment

This niche segment which consists of high-priced ultra-premium vehicles, forms an additional ~1% of the market. The segment consists of brands Mercedes Benz, Audi, BMW, Volvo and JLR. The ultra-luxury brands like Ferrari, Rolls Royce, Lamborghini form an insignificant part of the overall Indian market.

Sales of the luxury segment zoomed at 16% CAGR between fiscal 2017 to fiscal 2019 supported by favourable economic growth, increased disposable incomes and more model launches by the luxury OEMs.

### Luxury segment retail sales volumes



Note: Sales of AP, MP, LD & TS are not covered under VAHAN data and are not captured in the above data.

Source: VAHAN, Industry, CRISIL Research



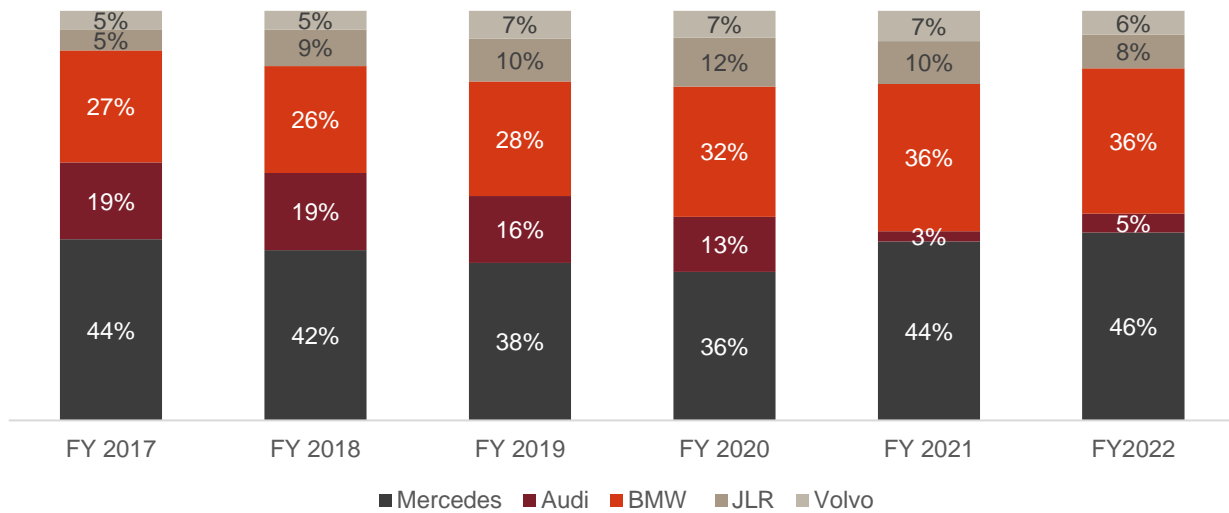
## Competitive landscape

Given its vintage in India, Mercedes Benz dominates the luxury cars market with 40-45% market share, followed by BMW with around 35% share. Audi is the distant third in the market with relatively limited share of JLR & Volvo.

Over the last 5 years, Mercedes has maintained its share in 40-45% range except in fiscal 2020. However, from fiscal 2020, Mercedes has regained its market share and reached nearly 46% of the market during fiscal 2022 supported by bevy of launches. BMW has been gradually gaining ground in the luxury market and reached its peak of 36% during fiscal 2022.

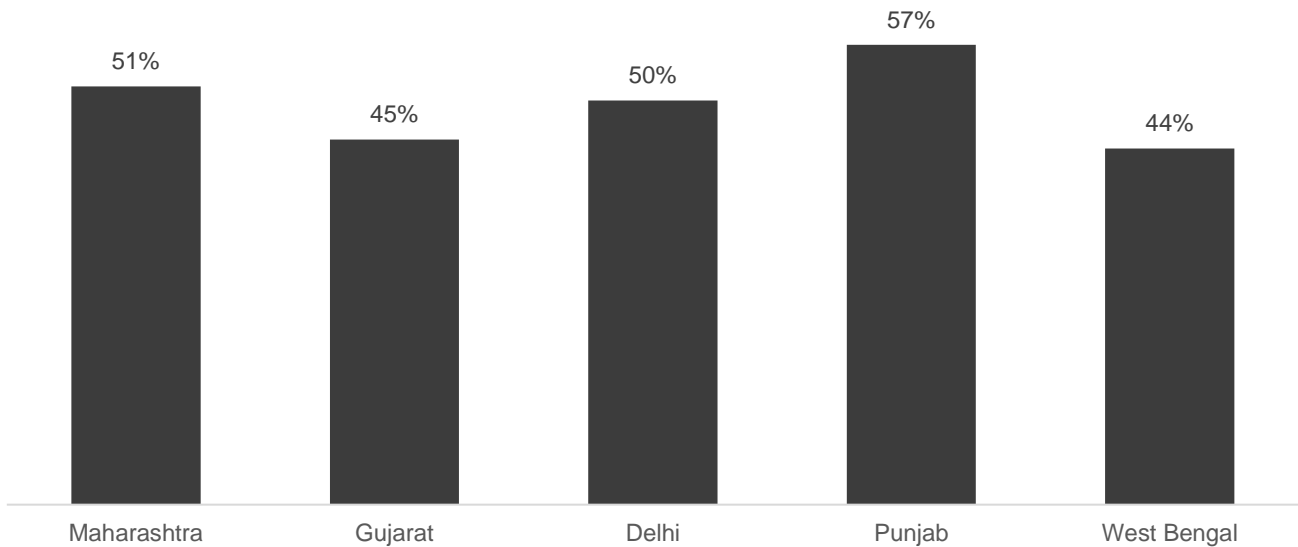
Third players Audi has been losing its share, its contribution has dropped from 19% in fiscal 2017 to 5% in fiscal 2022.

### Luxury car market share (in volume terms)



Source: VAHAN, CRISIL Research

**Share of Mercedes in luxury vehicle market of few major states (in volume terms)**



Source: VAHAN, CRISIL Research

**Key historical regulatory/macro-economic trends and growth drivers for domestic sales**

- Demonetisation
- Implementation of GST
- BS-IV to BS-VI transition
- Safety norms

**Current penetration of Electric PVs**

Current EV penetration in passenger vehicle category is miniscule (0.7% as on fiscal 2022) due to unavailability of affordable electric cars and charging stations leading to range anxiety. However, fiscal 2022 witnessed significant y-o-y increase in EV penetration amidst the sharp rise in fuel prices, rise in ICE vehicle prices and launch of newer models in the EV segment. EV penetration increased from 0.2% in fiscal 2021 to 0.7% in fiscal 2022.

**Electric vehicle models currently available**

Company	Model	Ex Showroom price (million)	Features
<b>Mahindra</b>	E verito	1.0-1.1	21.2 kWh battery with range of 180 km
<b>Tata</b>	Tigor EV	1.3-1.4	16.2 kWh battery with range of 140 km
<b>Tata</b>	Nexon EV prime	1.5-1.8	30.2 kWh battery with range of 312 km
<b>Tata</b>	Nexon EV max	1.8-2.0	40.5 kWh battery with range of 437 km

<b>Hyundai</b>	Kona	2.3-2.4	39.2 kWh battery with range of 452 km
<b>MG</b>	ZS EV	2.2-2.6	44.5 kWh battery with range of 340 km
<b>BYD</b>	E6	2.9	71.7 kWh battery with range of 415 km
<b>Mercedes</b>	EQS	24.5	107.8 kWh battery with range of 526-580 km
<b>Mercedes</b>	EQS 580	NA	107.8 kWh battery, range NA
<b>Mercedes</b>	EQC	99.5	80 kwh battery with range of 455-470km
<b>Volvo</b>	XC40	55.9	75 kWh battery with range of 418 km
<b>BMW</b>	iX	11.6	240 kw with range of 372-425 km
<b>KIA</b>	EV6	6.0-6.5	77.4 kWh with range of 528 km
<b>Audi</b>	RS e-tron GT	18.9	93.4 kWh with range of 401-481 km
<b>Audi</b>	e-tron	16.6	93.4 kWh with range of 388-500 km
<b>JLR</b>	I-Pace	10.6-12.4	90 kWh with battery range of 470 km

Source: CRISIL Research

Few of the leading players operating in the global EV market include Tesla, BYD, BAIC, SAIC, Renault-Nissan-Mitsubishi, Volkswagen AG and BMW.

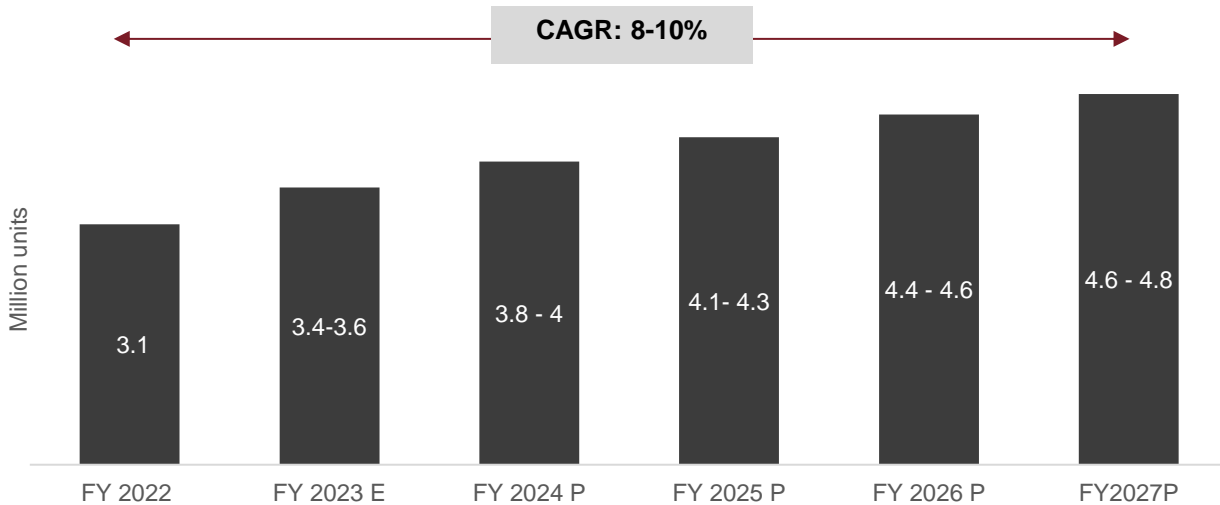
## **Outlook on the Indian PV industry (fiscals 2022 - 2027P)**

### **Domestic (mass+ premium market) sales volumes outlook (fiscals 2022 - 2027P)**

The previous five years, that is fiscals 2017 and 2022, witnessed a flat growth at less than 1% CAGR. CRISIL Research estimates overall PV sales (mass+ premium market) to grow at 8-10% CAGR from fiscal 2022 to 2027 and reach 4.6-4.8 million units by fiscal 2027. After a healthy growth posted in fiscal 2022, industry is poised to reach its historic high of 3.4-3.6 million vehicle sales in fiscal 2023 backed by improvement in chip availability and in turn vehicle production volumes as well as pent up demand and intermittent model launches. However, the dampened economic scenario amidst the increase in interest rates and high inflation is expected to exert pressure on the basic hatchbacks segment.

This will further expand the share of premium cars during fiscal 2023.

## PV domestic (mass+ premium market) sales volumes outlook



Note: E: Estimated. P – Projected

Source: SIAM, CRISIL Research

Over the long-term horizon, CRISIL Research expects the demand to rise at 8-10% CAGR anticipating continuous gradual improvement in economic activities, increasing average income and affordability of vehicles. Growth is expected to be better after fiscal 2022, because of healthy macroeconomic growth; increasing disposable income, a modest increase in the cost of vehicle acquisition, rising penetration per 1,000 people, favourable financial parameters, as well as a deeper reach in the rural markets, tier-III and tier-IV cities. Other factors that would aid demand are increasing urbanisation, government support to farm income, and increasing access to vehicle loans. However, increasing congestion in cities and rising popularity of shared mobility services are likely to restrict car sales in the long term.

During fiscal 2022-2027, replacement demand is likely to rise, as car owners opt for newer models due to higher affordability, competitive pricing of new models, and easy availability of finance.

CRISIL Research expects the premium segment to grow at a faster pace of 10-12% CAGR while the mass vehicle segment is expected to grow at a slower pace of 4-6% CAGR during fiscal 2022 to fiscal 2027 period.

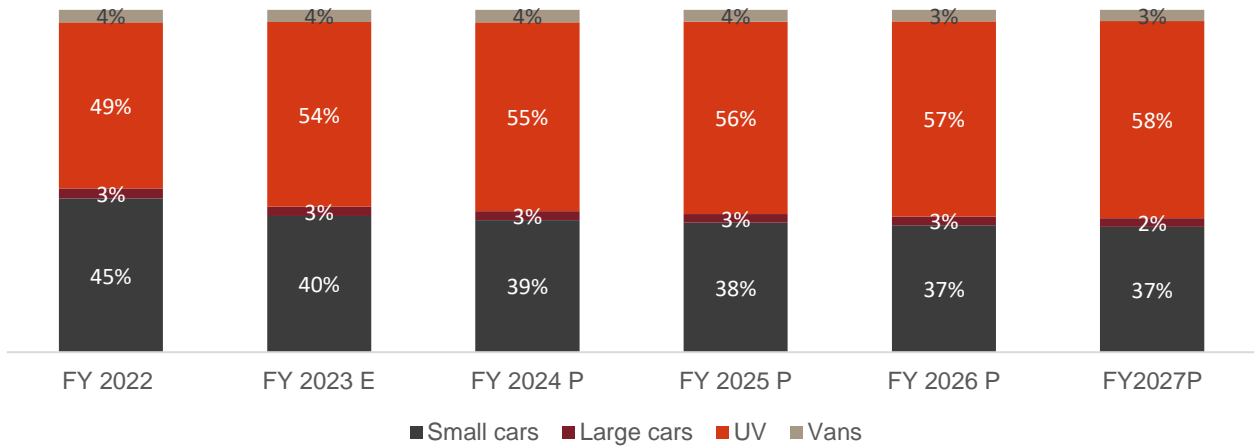
### Split by passenger vehicle segments

CRISIL Research projects UVs to drive the growth of passenger vehicle industry in long term. Shifting of consumer preference towards UVs, feature rich competitively priced launches in the UV segment, entry of newer players coupled with limited focus of OEMs on cars segment is expected to provide the thrust to the UV segment. UV segment volumes are expected to grow at a CAGR of 12-14% from fiscal 2022 and fiscal 2027.

The second dominant segment of the industry, small cars expected to clock a much slower growth of 4-6%. Even this growth is expected to be fueled by premium hatchback segment while basic hatchback segment is expected to witness a subdued gradual growth. Large cars to grow at a slow pace of 5-7% CAGR between fiscal 2022 and 2027.

Backed by the expected faster growth in the UV segment, share of UVs is expected to rise to ~58% of the PV (mass and premium segments) industry by fiscal 2027.

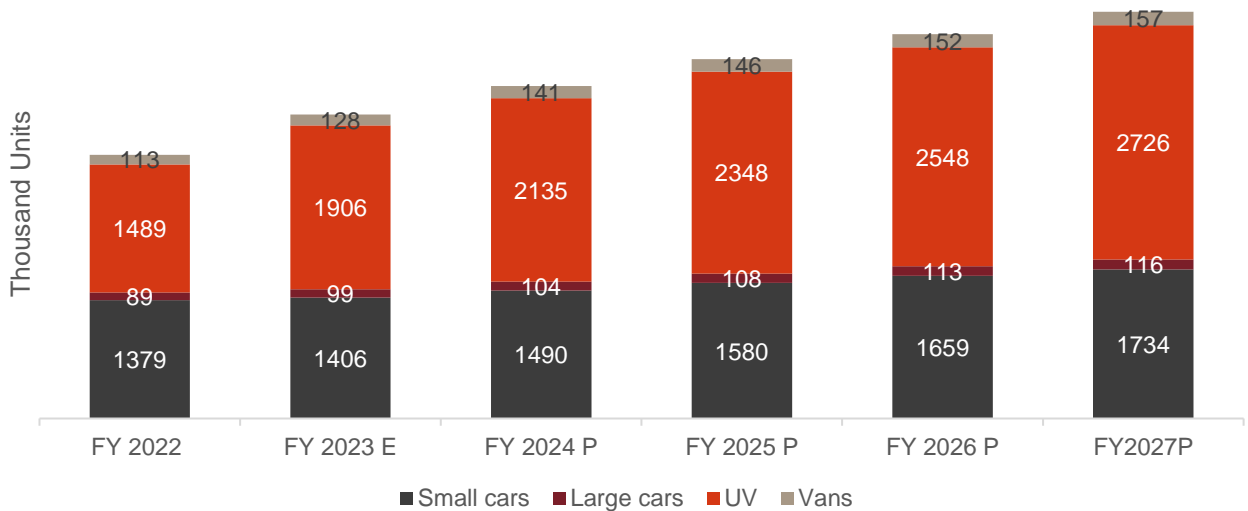
**PV sales outlook by segment (in volume terms)**



Note: E: Estimated, P – Projected.

Source: SIAM, CRISIL Research

**PV sales volumes outlook by segment**

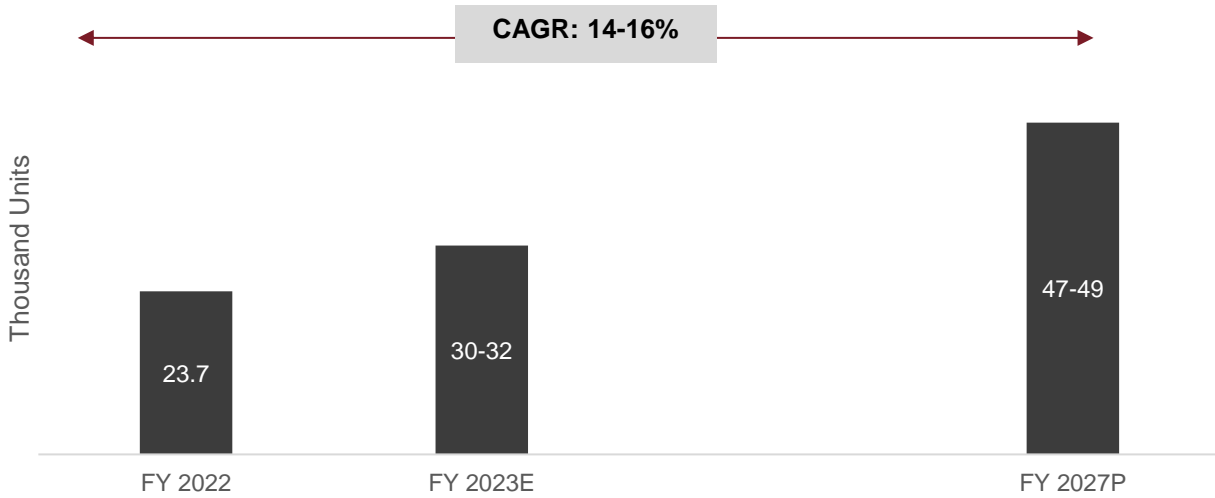


Note: E: Estimated, P – Projected.

Source: SIAM, CRISIL Research

Luxury segment is expected to grow at a healthy pace of 14-16% CAGR to reach 47-49 thousand units by fiscal 2027. This growth will be powered by estimated improvement in economic environment, increase in disposable incomes as well as intermittent launches by OEMs/players.

**PV domestic luxury market sales volumes outlook**

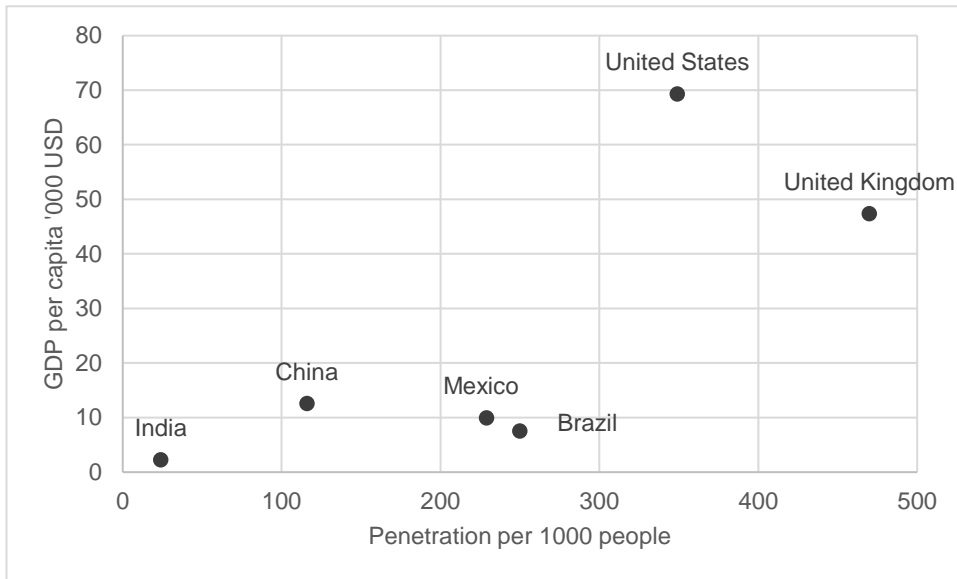


*Note: Sales of AP, MP, LD & TS are not covered under VAHAN data and are not captured in the above data.  
Source: SIAM, CRISIL Research*

**Key trends and growth drivers**

- Underpenetrated market huge potential for cars & UVs

**Country-wise passenger vehicle penetration**



*Note: X axis represents cars per 1000 population, Y axis represents GDP per capita (\$1000)  
Source: Road Transport yearbook 2018-19, World Bank, CRISIL Research*

- Expected improvement in macroeconomic factors after a decline in fiscal 2021
- Anticipated improvement in rural demand

- **Improvement in finance availability**

Given the industry's higher ticket sizes and better credit profile of end customers, finance penetration is higher in the PV industry compared with other automobile segments. CRISIL Research estimates finance penetration levels to have reached 79% in fiscal 2022 from 75% in fiscal 2017.

Stringent credit norms and availability of credit information through the Credit Information Bureau (India) Ltd (CIBIL) have helped players widen their customer bases. The industry has witnessed strong competition with new players in the form of non-banking financial companies (NBFCs) targeting those markets that banks exited, and captive NBFCs (operated by two-wheeler manufacturers) largely focusing on non-metros.

- **Increasing demand for personal mobility**

Increased need for social distancing amidst the Covid pandemic accentuated the demand for personal mobility. Need for personal mobility provided a significant push to the PV segment demand in fiscal 2021 and 2022. Despite the reduction of new Covid cases, the demand for personal mobility has not subsided and is expected to continue in the medium term providing an additional fillip to the passenger vehicle demand. The increasing disposable income will support the growth in personal mobility demand.

- **Shift towards premium products/variants**

Consumers are increasingly preferring premium, aesthetically superior and technology savvy products, driven by rising disposable income and exposure to developed markets. Consumers are emotionally attached with discretionary products, such as passenger vehicles, two-wheelers, where such products often symbolise their lifestyle and their personality. Therefore, consumers are increasingly willing to pay for aesthetically superior and differentiated products. Consumer preference is shifting towards bigger cars. Demand for small cars have declined from 61% in fiscal 2017 to 45% in fiscal 2022. In addition, the demand for mid- and top- variants of passenger vehicle models has seen a gradual increase over years.

CRISIL Research further expects the contribution of mid plus top variant to increase 5-10% in the small car segment (in volume terms), followed by 15% in the large car and UV (Utility vehicles) segment by 2027.

Segment	FY22 (mid + top variant)	FY27 (mid + top variant)
Small	30-40%	40-50%
Large	70-75%	85-90%
UV	50-55%	65-70%

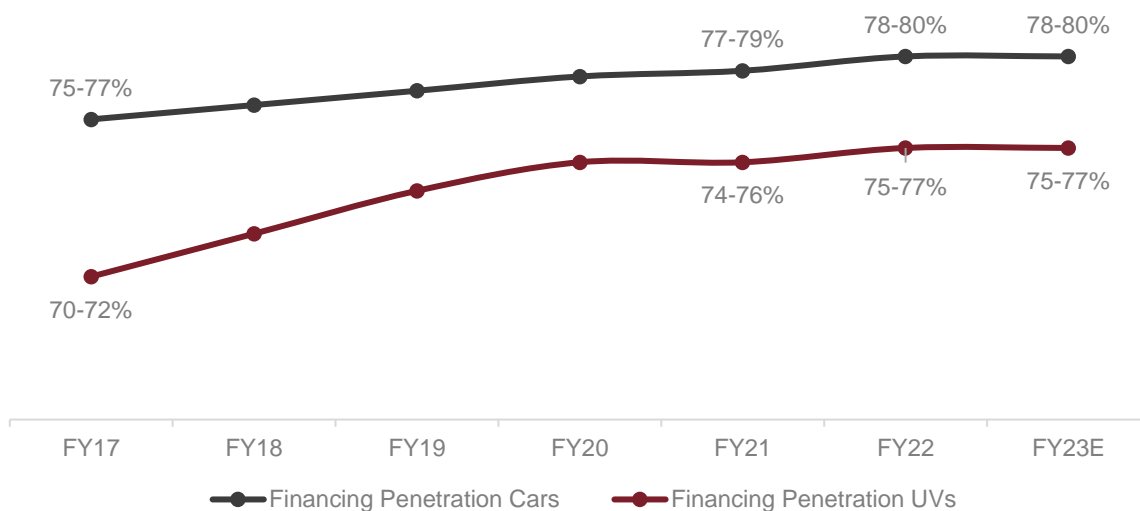
Note: UV: Utility vehicles

Source: CRISIL Research

- **The penetration is expected to deepen going forward as:**

- More customers come under the formal financial services fold
- Banks increase their focus on the retail segments
- Banks start waving off processing fee and pre-payment charges (especially during festival seasons) which will make financing option more lucrative for customers
- CRISIL Research expects penetration to reach 82-84% by fiscal 2027.

## PV finance penetration – Fiscals 2017 to 2022



Note: E – Estimated, Finance penetration indicates number of vehicles financed per 100 vehicles sold in India  
Source: CRISIL Research

### Enhanced product offering

- New models launched by manufacturers
- Increase in offerings because of new entrants such as Kia Motors, MG Motors, BYD etc.

Apart from rising sales of existing models, sales of new models have supported overall industry growth in the past few years. Majority of the models are in the UV segment leading to its growth.

New models launched in fiscal 2019 contributed to a mere ~3% of domestic PV (mass and premium segments) sales that fiscal. However, they gained significant traction in fiscal 2020, leading to ~16% market share. While in fiscal 2021, new models contributed to 17% of the domestic PV (mass and premium segments) industry. This contribution was mainly from the vehicles launched in fiscal 2020.

All the launches planned in fiscal 2021 were postponed amidst the pandemic. Moreover, the chip shortage faced by the industry during fiscal 2022 limited production of new models. Thus the contribution of new models dropped to ~10% of the domestic PV (mass and premium segments) in fiscal 2022.

## Recent & upcoming major vehicle launches

### Mass market

Segment	Player	Model
Mass market	MSIL	Celerio Facelift
Mass market		Alto facelift
Mass market		Spresso facelift
Mass market		Swift Hybrid
Mass market	Tata Motors	Tiago EV*



## Premium market

Segment	Player	Model
Premium market	Maruti	Baleno facelift
Premium market		Brezza facelift
Premium market		Grand Vitara
Premium market		S cross facelift
Premium market	Mahindra	Scorpio classic facelift
Premium market		Scorpio N
Premium market		XUV 300 facelift
Premium market		XUV400*
Premium market	Honda	HR-V
Premium market	Tata Motors	Altroz EV*
Premium market		Nexon EV max
Premium market	Renault	Arkana
Premium market	Citroen	C3
Premium market		C5 facelift
Premium market	VW	Taigun
Premium market		Virtus
Premium market	MG	Astor
Premium market		RC 6
Premium market		MG 3
Premium market	Hyundai	Elantra facelift
Premium market		Tucson facelift
Premium market		Creta facelift
Premium market		Venue facelift
Premium market		Verna facelift
Premium market	Kia	Ioniq*
Premium market		EV6
Premium market		Sportage
Premium market	Jeep	Carnival facelift
Premium market		Meridian
Premium market	Jeep	Grand Cherokee
Premium market	Toyota	Urban Cruiser Hyryder

## Luxury market

Segment	Player	Model
Luxury market	Mercedes Benz	EQA EV*
Luxury market		C class facelift
Luxury market		EQS EV*
Luxury market		GLB
Luxury market	Audi	A8L facelift
Luxury market		Q7 facelift
Luxury market		Q5 facelift
Luxury market		Q3 facelift
Luxury market		A3 facelift
Luxury market	BMW	6 series
Luxury market		3 series facelift
Luxury market		I7*
Luxury market		X6 M50d
Luxury market	Volvo	S90 facelift
Luxury market		XC 40 Recharge*
Luxury market		V60 cross country
Luxury market	JLR	E pace
Luxury market		Rover Sport
Luxury market		DC100

Note: \* : Electric Vehicles

Source: Industry, CRISIL Research

## Impact of regulatory changes on domestic passenger vehicle sales

Norm	Description	Applicable from	Implication
6 Airbag	Six airbags will be mandatory for the M1 category of vehicles that can carry up to 8 people	October 1, 2022	Increase in vehicle manufacturing cost and Prices
BSVI-stage 2	vehicles will need to meet the actual driving emission norms and not be limited to only tests in laboratories	April 1, 2023	Increased fuel Efficiency Increased R&D cost Timing controlled Fuel injection On board Diagnostic 2(OBD): Sensor implantation to monitor acceleration crankshaft positioning , temperature and emission
Bharat NCAP	Automobiles in India will be accorded star ratings based on their performance in crash tests factoring in the existing Indian regulations and driving conditions for M1 category	April 1, 2023	Increased use of high strength material in platforms, Electronic stability control (ESC) implementation
CAFE II	Reduce average corporate Carbon dioxide emission limit to 113g/kg	April 1, 2022	Increased fuel efficiency, reduced CO2 emission, Increased R&D cost

Source: CRISIL Research

## Electric passenger vehicles to contribute ~5-8% of domestic sales by fiscal 2027

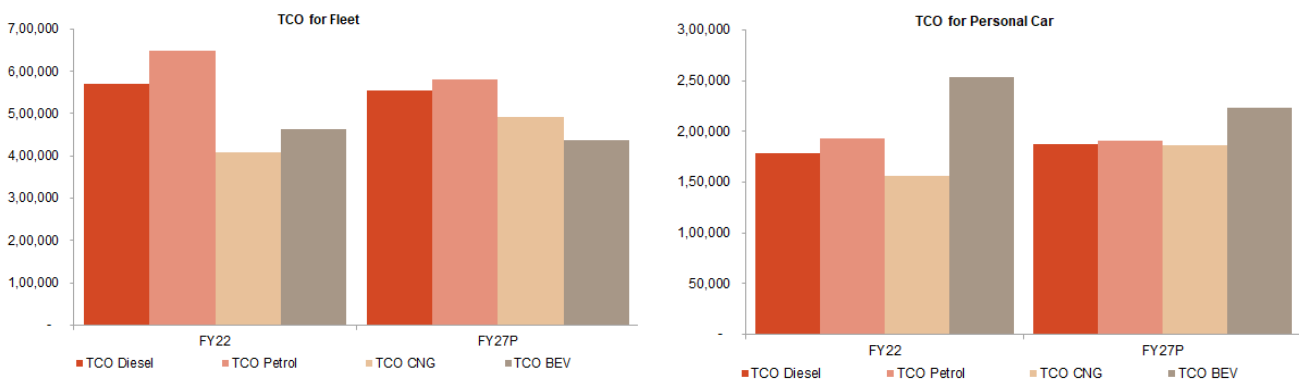
To curb pollution, electric vehicles are gaining global interest. In India, too, electric vehicles are gaining popularity, as the government is extending support via FAME (Faster Adoption and Manufacturing of Hybrid and Electric vehicles) and tax-rate cuts to boost EV adoption.

The FAME-2 subsidy is incentivised only towards commercial use and no benefits are provided to personal-car owners. CRISIL analysed the ownership cost of an electric passenger car versus petrol, diesel, and CNG variants for cab aggregators and for personal segments. Total cost of ownership (TCO) for EV cab aggregators is currently lower than those of a diesel variant due to higher running.

For the commercial/taxi segment, the TCO of electric vehicles in fiscal 2022 was lower than that of petrol and diesel by ~29% and ~19% and higher than a CNG variant by ~13%. Further in fiscal 2027, CRISIL Research expects the TCO of electric vehicles to be lower by ~25%, ~21% and 11% than petrol, diesel and CNG variants respectively. Hence, CRISIL Research believes the true viability for taxis is at least 4-5 years away, but earlier than the personal segment.

The taxi segment accounts for 10-15% of sales within passenger cars and, within the taxi segment, cab aggregators are expected to lead the adoption of electric vehicles, resulting in an estimated 25-31% adoption of electric vehicles within this segment by fiscal 2027 (considering that adequate infrastructure is available by fiscal 2027).

### TCO of EVs for personal car remains a challenge



Source: CRISIL Research

For personal users, the TCO of electric vehicles in fiscal 2022 was higher by 20-30% with respect to all the three fuel variants. In fiscal 2027, CRISIL Research expects the economics to again remain the same – TCO of EVs expected to be higher than all the three fuel variants by 10-20%. However, despite not so favourable cost economics, higher adoption has been witnessed initially by environment conscious buyers. Accordingly, CRISIL Research expects the penetration of EV segment to reach 5-8% by fiscal 2027.

## **4. Review and outlook of pre-owned PV industry in India**

### **Review of the pre-owned (mass market + premium vehicles) PV industry in India**

#### **Historical development**

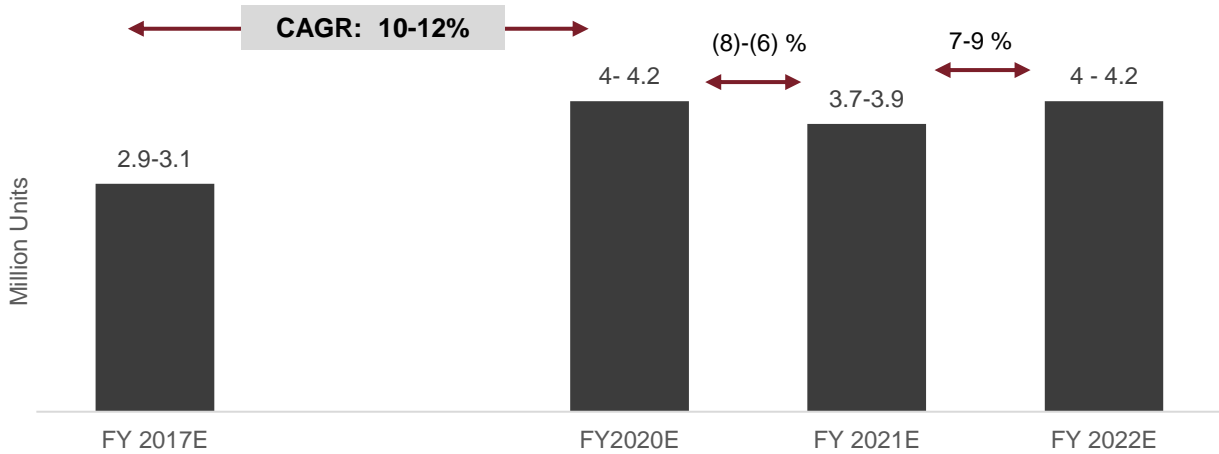
Pre-owned car market has come a long way in the last four decades. The market for pre-owned PVs has grown at 13% CAGR between fiscal 2015-2020 period backed by changing buyer demographics and intermittent launch of feature-rich vehicles have been shortening the replacement cycles, aiding supply in the market. Moreover, the availability of easy financing at competitive rates has provided a fillip to the industry.

Additionally, the emergence of digital platforms in this space and improved internet/ smartphone penetration have ensured that buyers are presented with more options and, given a touch of assurance as digital platforms gain foothold in the segment. The price rise in new PVs to comply with the emission norms as well as some shift from new PVs to pre-owned PVs amid the sluggish economic growth provided an added impetus to the pre-owned PV market.

Moreover, the pandemic also provided an additional kicker to the pre-owned PV demand amid the increased requirement for personal mobility to maintain social distancing and customers' reluctance to use the shared-mobility options.

However, despite the increased need, sales contracted 6-8% in fiscal 2021 amidst the supply shortage as the sellers postponed selling their vehicles impacting the vehicle supply in the market. Moreover, elongated waiting periods in the new car market also delayed the supply of exchanged vehicles to the pre-owned car market. According to CRISIL Research's estimates, the share of vehicles bought with an exchange option came down from 35-40% in fiscal 2020 to around 30% in fiscal 2021, implying that, for every 100 new PVs sold, there were 5-10 fewer vehicles coming in for exchange, while demand for additional vehicles had spiked by the same number. This restricted the pre-owned PV industry sales in fiscal 2021.

**Sales of pre-owned mass + premium vehicles**



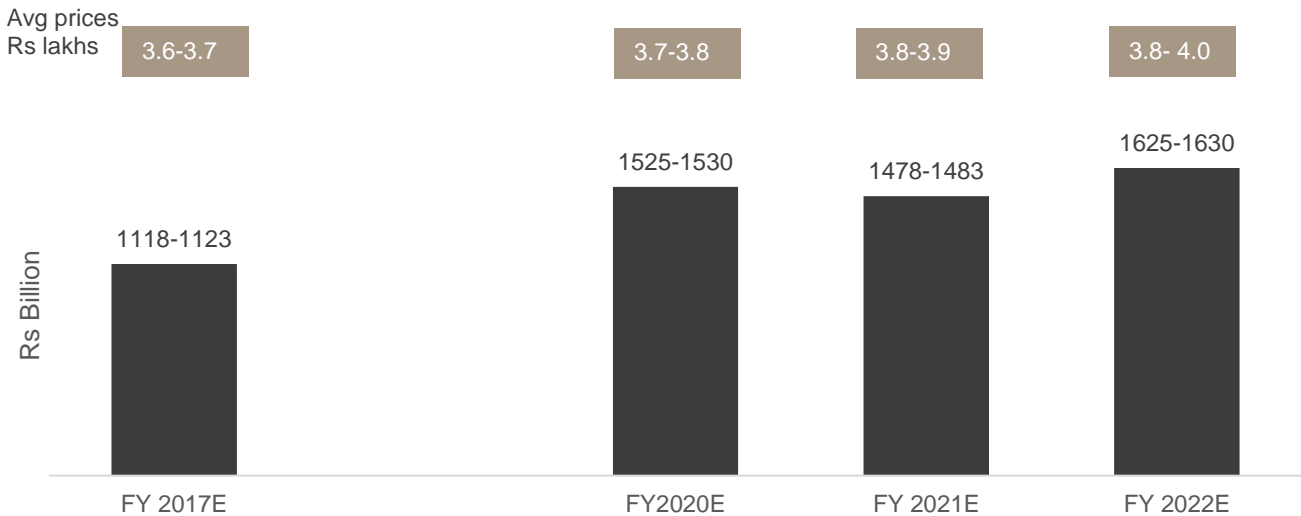
Source: Industry, SIAM, CRISIL Research

With Covid-19 first wave nearly subsiding by the fourth quarter of fiscal 2021 and the vaccination drive picking up pace; Indian economy as well as the overall auto industry were geared up for a healthy revival in fiscal 2022, from a low base of fiscals 2020 and 2021. However, the resurgence of Covid-19 in a much severe form, the second wave derailed this expected revival.

During the second half of the year, with reopening of economy and increased inoculations and in turn improved mobility, pre-owned car market also picked up. However, vehicle supply to the used car market remained under pressure as chip shortage impacted the new car vehicle market and waiting periods soared in the new car market impacting vehicle supply in the pre-owned car market.

On a low base of fiscal 2021, sales of pre owned cars in fiscal 2022 are estimated to have clocked 7-9% y-o-y growth to reach near pre pandemic levels of 4-4.2 million.

### Pre-owned mass + premium vehicles market value trend



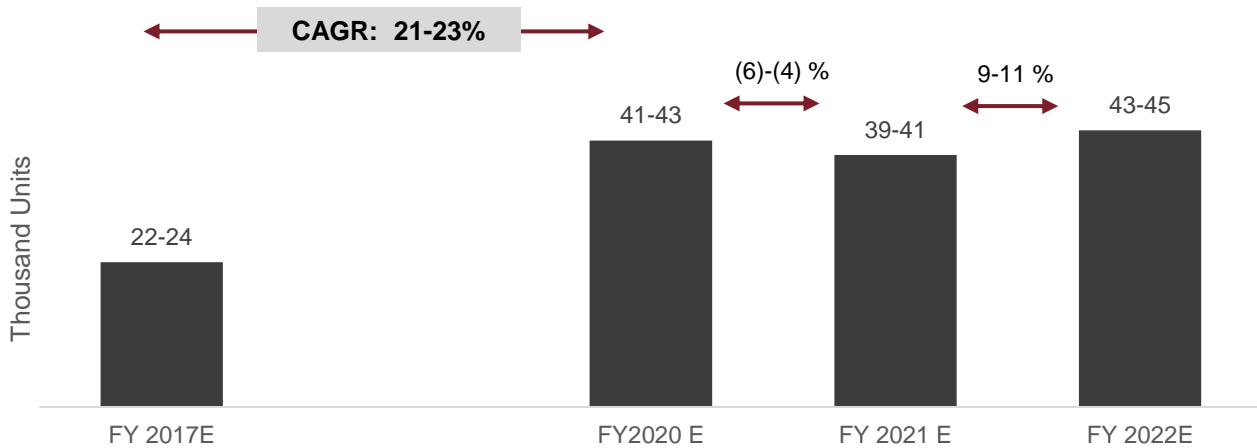
Source: Industry, SIAM, CRISIL Research

### Review of the pre-owned Luxury vehicle industry in India

The pre-owned luxury vehicle market has grown at a healthy pace of 21-23% CAGR between fiscal 2017 to fiscal 2020, albeit on a very low base. Improvement in the economic scenario, increase in disposable incomes, entry of new global OEMs, portfolio expansion and new model launches by players provided the traction for this growth.

However, pandemic impacted the sales during fiscal 2021 contracting the market ~5% during the year. Fiscal 2022, also began with the much severe second wave and another round of national lockdowns. First half of the fiscal was impacted with limited market operations and mobility. Reopening of the markets boosted the sales in the second of the fiscal. From a low base of fiscal 2021, pre-owned luxury car sales are estimated to have risen by 9-11% to reach 43-45 thousand during the fiscal 2022.

## Sales of pre-owned luxury vehicles



Source: Industry, VAHAN, CRISIL Research

## Business models of pre-owned vehicle market participants

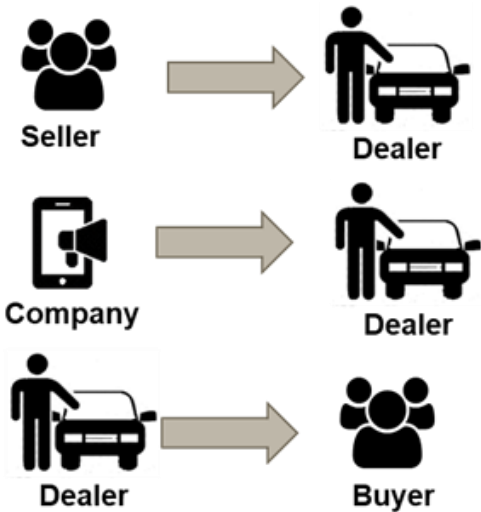
There are two main participants in the pre-owned car market. Firstly, the dealers (organized and unorganized) are the primary participants in the market, most of the B2C transactions are executed by the dealers. Organised dealers are the large dealers with a showroom and a workshop. The OE backed dealerships like True value, H promise are also considered as organized dealers. Unorganised dealers are the small local dealers who cater to nearby areas. However, unorganised dealers dominate the market with 50-55% contribution.

Then the recent entry into the pre-owned vehicle market are the digital platforms like OLX, Cardekho Cars24 etc which provide the support in vehicle procurement as well as vehicle sales. However, digital platforms have also expanded into the B2C sales where they are selling the vehicles through their own retail outlets. This business is currently in the nascent form.

### Organised / Unorganised dealers

Unorganised players procure the vehicles directly from sellers or from digital platforms through auctions or their classifieds. They also procure vehicles from other dealers especially OE backed dealerships. OE backed dealers procure their vehicles from the exchanged vehicles at their sister concern new car dealership. Exchanged vehicles from the new car dealerships are routed to pre-owned vehicle dealerships of organized OEM (original equipment manufacturer) backed players like True Value, Mahindra First Choice etc.

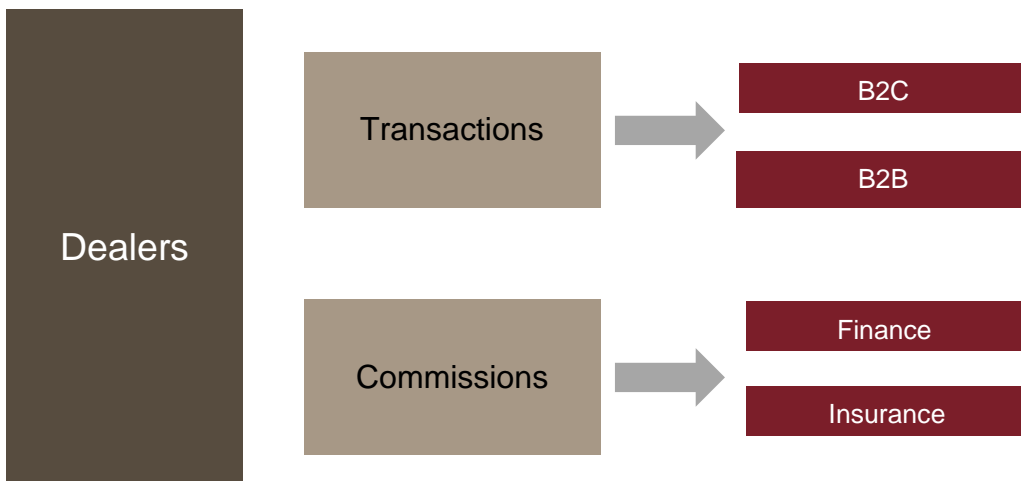
**Modus Operandi of organized/unorganized dealers**



Source: Industry, CRISIL Research

Organised as well as unorganized dealers refurbish the vehicle and put it in the showroom with a markup. Customers can avail finance, insurance, warranty at the showroom. Main revenue streams for the organized players are - revenue from selling cars and the commission earned from third parties for finance and insurance. Sales of pre-owned vehicles also provides an additional boost to new car sales of large organized players by providing a trade in value for the old car of the customer.

**Business model**



Source: Industry, CRISIL Research

As of fiscal 2022, finance penetration in the pre-owned industry is 25-30%. Dealers earn 1-3% of the financed amount as a commission from financiers. Backed by estimated increase in share of organised segment, support from financiers, softening interest rates, the finance penetration in the pre-owned car industry is expected to rise to 35-40% levels by fiscal 2027.

On the other hand, Insurance penetration is relatively lower at 15-20% as of fiscal 2022, CRISIL Research expects insurance penetration to remain range bound going ahead. Dealers earn 16-18% of insurance premium as a commission on insurance. These commissions are an easy supplement to the dealer revenues.



Few unorganised dealers offer park and sell option to sellers, where the seller parks his vehicle at the dealership without transferring the ownership to the dealer and gets paid only when the car is sold to the buyer. In this transaction, dealer earns commission for facilitating the transaction. However, such transactions are not very common.

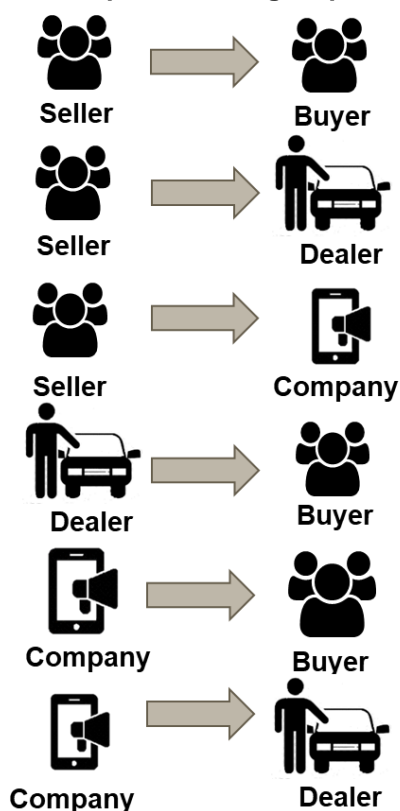
Organised players especially Original Equipment manufacturer (OEM) backed dealerships have also invested in the digital platforms to supplement their brick-and-mortar business. Potential customers can view available vehicle inventory with the dealership chain and access the dealer details from the website to go to the physical store to test drive and finalise the vehicle. Value added services like financing and insurance is also available online for these OE chains.

### Digital Platforms

Digital platforms are primarily in the B2B business through listing and auctioning business. They put listings of sellers with relevant details about the vehicle. Upon confirmation, they provide buyers with contact details of the sellers and facilitate the buying process. Additionally, if customer is willing, they provide inspection by experts and fair price estimate too.

Moreover, they conduct vehicle auctions where dealers can participate and procure vehicles for their dealerships. Many of the digital platforms have also entered into retail business through their own brick and mortar stores.

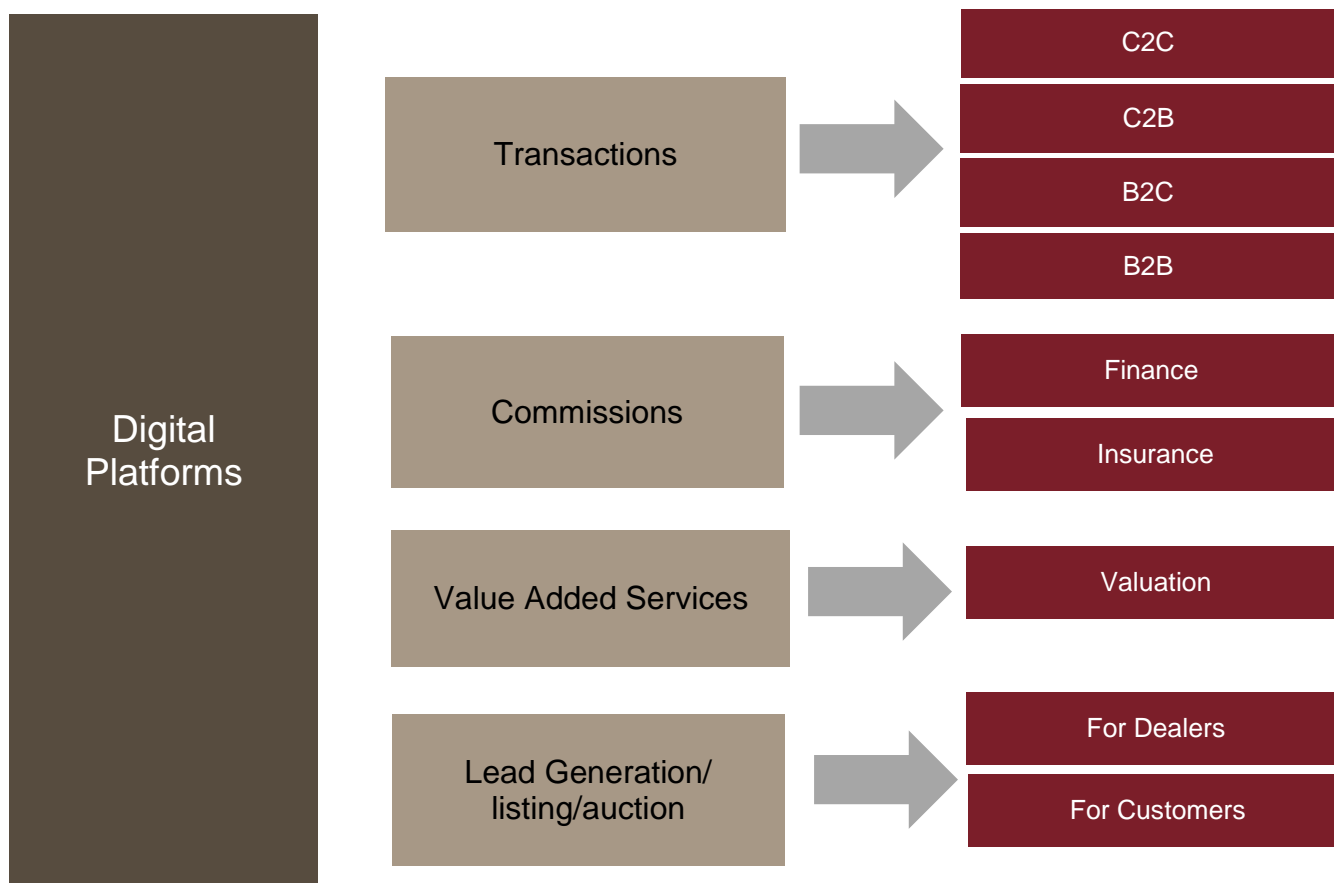
#### Modus Operandi of digital platforms



Source: Industry, CRISIL Research

Digital platforms also provide buying assistance in the form of finance & insurance for the vehicle through third parties. Revenue streams for digital platforms would be commissions from buyers and sellers for vehicle, commissions from third parties for finance, insurance, inspection and revenue from lead generation/listing/ auction from dealers.

**Business model**



Source: Industry, CRISIL Research

**Organised segment expanding further**

Pre-owned PV market used to be an unorganized space where there were only small brokers and sellers operating across geographies. Buyers predominantly bought pre-owned vehicles from their friends/ relatives or nearby garages.

MSIL was the first player to enter this segment with the launch of Maruti True Value in 2001. With them, they brought practices of the organized segment like warranty, financing, and usage of genuine parts. Mahindra followed the suit and entered the pre-owned PV market when it launched First Choice in 2008. Other OEMs also entered the pre-owned space with their respective pre-owned dealership arms like H promise (Hyundai), U Trust (Toyota), Auto Terrace (Honda).

Given the dearth of good alternatives earlier, both entities enjoyed good response from customers. Exchange schemes offered by new PV dealers streamlined the supply chain for them. Over the years, share of organized sector boomed as buyers thronged to these organized establishments.

Rise of digital platforms broadened this pool further. A customer could look at all the options available within his budget at a click of a button. He could assess fair price, get financing options and contact the seller directly. If he is willing, he could also go for a slightly higher priced but expert certified vehicle. Digital Platforms gave an option to check for all the vehicles available in a city sitting in the comforts of your home. This ease of access resulted in digital segment gaining popularity and they grew by eating up the share of unorganized sector. Moreover, the unmatched transparency and reliability offered by the digital medium is bringing more customers into the pre-owned vehicle market.

Organized sector has been gaining foothold in the sector. Digital platforms too are gaining traction on the back of digital revolution in the country. Both these sectors bring technological advances and attractive financing options.

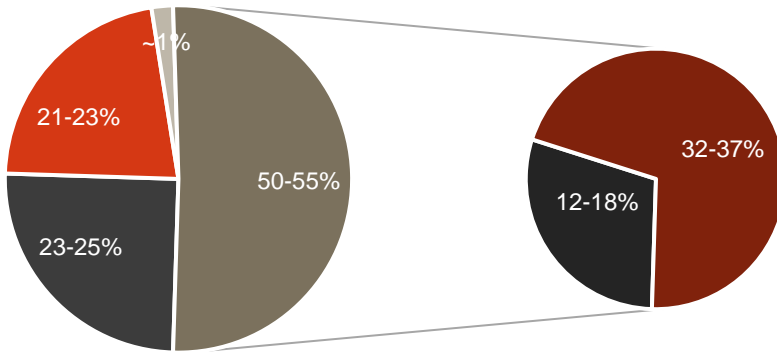
Many of the larger brick and mortar pre-owned car dealers with a focus on digital medium are also getting benefitted with consumer preference shifting from direct walk ins to digital mediums. These large dealers are offering higher convenience, more accessibility better options to the customers over and above the increased transparency and reliability. Digital medium is also helping these dealers in expanding their customer base as well as supporting in customer acquisition.

However, sales through unorganized local dealers continues to form the major share of the overall market, although the share has shrunk gradually over the years. Organised segment contributed 16-18% in FY 2017, while unorganized players dominated the market with ~65% share.

As of fiscal 2022, nearly half of the overall sales are executed by the unorganised dealers. However, 30% of the lead generation for unorganised dealers happens through digital platforms. Organised dealers contribute 20-22% while ~25% of the sale happen directly from customer to customer.

The recent phenomenon of sales through physical showrooms of digital platforms like OLX, Spinny, Cars24 is currently in the nascent stage and contributed nearly 1% to the overall sales.

## Pre-owned PV market segmentation as of fiscal 2022



■ C2C ■ Organised ■ Digital platforms ■ Classified ■ Direct through dealer

*Note: **Organised dealers** are the dealers with sales showroom and workshop; It also includes OE backed dealerships such as True Value, Mahindra First Choice etc*

***Unorganised dealers** are the dealers with or without basic sales set up and without workshop*

***Classified** are the digital platforms through which dealers list vehicle for selling to customers*

***Digital platforms** are the physical Stores of digital platforms like OlxAuto, Spinny, Cars24*

***C2C** denotes direct customer to customer transactions*

Source: Industry, CRISIL Research

Going ahead, CRISIL Research expects industry to move towards organised segment (including digital platforms) backed by higher convenience, transparency, choices, value added benefits provided by the organized segment. Moreover, contribution of digital platforms in lead generation for unorganized dealers to increase further.

By fiscal 2027, CRISIL Research expects organized segment (including the physical stores of digital platforms) to cater to 30-32% of the demand and support nearly 50% of the demand of unorganized segment through classifieds.

## Pre-owned PV market long-term outlook

On a long-term horizon, CRISIL Research expects a healthy growth in the pre-owned PV market. The pre-owned mass market/ premium vehicle segment is expected to grow at a 12-14% CAGR between fiscals 2022 and fiscal 2027 to 7.5-8 million vehicles. Increased need for personal mobility, rising aspirations of customers, growing disposable income, lowering replacement cycles and increasing financial penetration will drive the growth. The expanding share of the organised segment will provide an added boost to demand.

Luxury pre-owned cars is another sector growing steadily since the last few years. Emergence of mega retail centres and luxury OEMs setting up their pre-owned car retail businesses indicates growing interest of sellers to cash-in on this. Heavy discounts offered during Covid brought more customers to this segment.

Moreover, the expected increase in finance penetration from 25-30% in fiscal 2022 to 35-40% by fiscal 2027 to provide an additional kicker to the demand.

## Outlook for pre-owned PV industry



Note: E – Estimated, P - Projected

Source: Industry, CRISIL Research

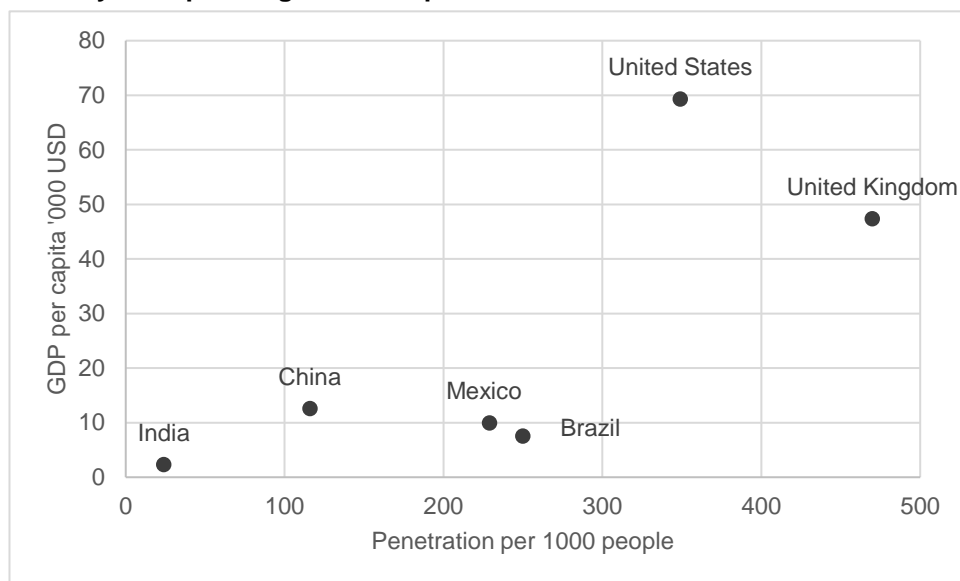
## Key drivers for growth in the pre-owned mass market and premium vehicles segment

- **Lower vehicle penetration**

India lags far behind its peers in vehicle penetration per 1,000 people. Despite making considerable gains in the past decade, vehicle penetration in mass + premium market still hovers around 23-25 vehicles per 1000 people.

However, given where India stands compared with its peers, there is immense room for growth. Compared with its northern neighbor, China, which has 116 vehicles per 1,000 people, India has a lot of ground to cover. A fellow developing country, Brazil, boasts of 250 vehicles per 1,000, while developed countries such as the US, the UK, and Germany are miles ahead.

### Country-wise passenger vehicle penetration



Note: X axis represents cars per 1000 population, Y axis represents GDP per capita (\$1000)

Source: Road Transport yearbook 2018-19, World Bank, CRISIL Research

Compared to mass+ premium market, penetration in luxury segment is relatively higher. Within Luxury car segment CRISIL Research estimates penetration of 150-170 vehicles per 1000 population

	Vehicle population (million)	Addressable Population (million)	Luxury car penetration per 1000 addressable population
Luxury Segment	0.3	2	150-170

Note: Addressable population: Population earning gross total income of more than Rs 25 lakh annually

- Nascent stage of pre-owned PV industry**

The pre-owned PV market is still in its nascent stage in India with a lot of ground to cover. As mentioned earlier, all organised players started in this millennium, while the digital startups are not even a decade old. Their success in this limited timeframe indicates demand that was unaddressed earlier. Both these sectors are expected to consolidate their position in the coming years, as investment pours into both.

The ratio of pre-owned PVs to new PVs, currently at 1.3-1.5, is estimated to improve further in the coming years. Other countries in comparison are at US 1.9, Germany 1.9, France 2.7 and UK 3.5. It reflects that the pre-owned PV market is in the early stages in India and developed economies are much better places in this space, since the pre-owned PV segment is more organised in those countries. As this segment gets more organised, customers get more choices, better sales and after-sales support, as well as cheaper financing options. Moreover, the digital platforms provide more choices, convenience, reliability and transparency into this market.

The ratio of pre-owned PV sales to new PV sales is expected to reach 1.5-1.7 times by fiscal 2027.

- **Advent of digital platforms**

The recent emergence of digital platforms has provided an additional thrust to the pre-owned car industry growth. Digital platforms provide more choices, convenience, reliability and transparency into this market. All these factors were majorly lacking in the pre-owned car market which was completely dominated by unorganized players.

Digital platforms not only aid the market from supply side by supporting dealer procurement, but it also provides a platform for dealers to showcase and sell their refurbished vehicles supporting demand growth. The added transparency in the vehicle valuation and price discovery are other important aspects backing the industry growth.

CRISIL Research expects the digital platforms to play a bigger role in the market going ahead. Large dealers/OE backed dealerships have also invested in the digital technology. Their focus on digital medium is expected to continue going forward.

- **Increasing internet penetration**

India has witnessed a significant surge in internet users over the past few years, with internet penetration as a percentage of the total population reaching ~62% in fiscal 2022 compared with less than 20% in fiscal 2015.

Internet penetration is expected to reach 70-75% of the population by fiscal 2027 supported by government's focus on digital India, aggressive expansion plans of telecom players coupled with continued advancement in technology.

- **Shortening PV replacement cycle**

In the past few years, the vehicle replacement cycle has been coming down from 6-8 years a few years ago to about 4-6 years in fiscal 2022. The sharp rise in launches of advanced, feature-rich, trendy-looking vehicles at competitive prices has been pushing the young customer demographic to sell off their old vehicles for one of the latest ones.

Lucrative exchange options offered by most OEMs as well as easy vehicle-selling avenues, facilitated by C2C and organised players, are providing an added push to customers contemplating about exchanging their vehicles.

Thus, the shortening replacement cycle of the new vehicle buyers is also supporting the growth of the pre-owned PV industry.

- **Younger demographic**

According to Indian Census 2011 projections, India continues to have a very young demographic with an estimated 61% of its population below 35 years and a median age of around 28 years by 2021. This younger demographic does not see any stigma with buying a pre-owned PV unlike the older ones and they have contributed to the acceptance of pre-owned PV segment, especially in small towns and cities. They are also more tech-savvy and, hence, a target segment for C2C intermediaries such as OLX, Quikr, Carwale etc.

A plethora of launches in the past few years has brought feature-laden vehicles to the market, so the pre-owned PV segment is also seeing increased engagement from younger customers, who typically want feature-rich vehicles.

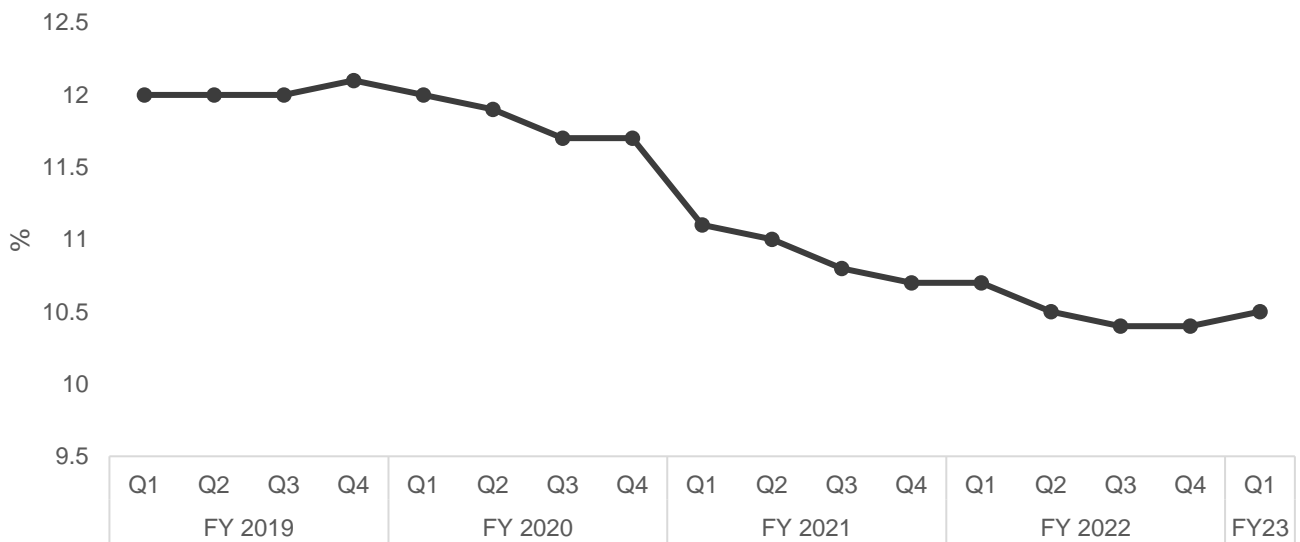
- **Expanding finance penetration**

Earlier buyers shied away from getting their vehicles financed, because of exorbitantly high interest rates making the overall deal costly. As the organised segment affirmed its footing, its tie-ups with banks made deals attractive for the buyers. In the past few years, interest rates have been declining, making pre-owned PVs more attractive purchases. Subdued interest rates backed the pre-owned PV segment growth.

However, the recent fiscal 2023 rise in RBI repo rates translated into an increase in interest rates across segments including the pre-owned cars. No sizeable impact of the same is expected on the penetration levels.

As of fiscal 2022, finance penetration in the pre-owned industry is 25-30%. Backed by estimated increase in share of organised segment, support from financiers, the finance penetration in the pre-owned car industry is expected to rise to 35-40% levels by fiscal 2027.

**Interest rates in the pre-owned PV market**

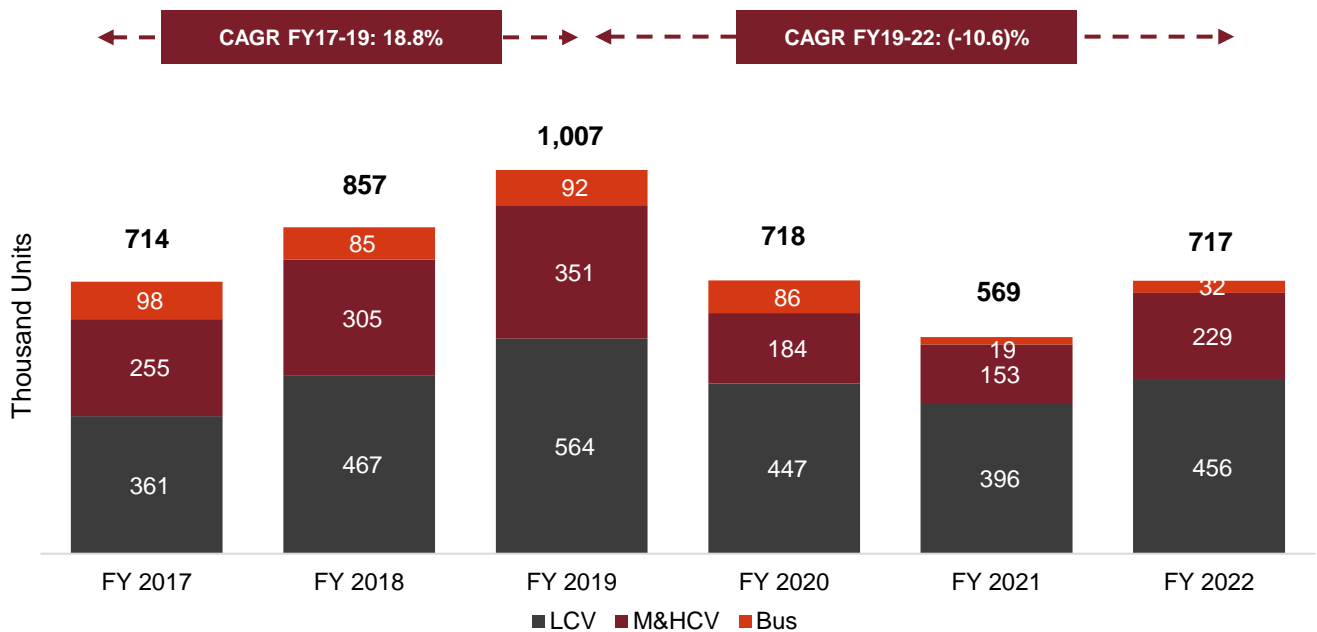


Source: Industry, CRISIL Research



## 5. Review and outlook of Indian commercial vehicle industry

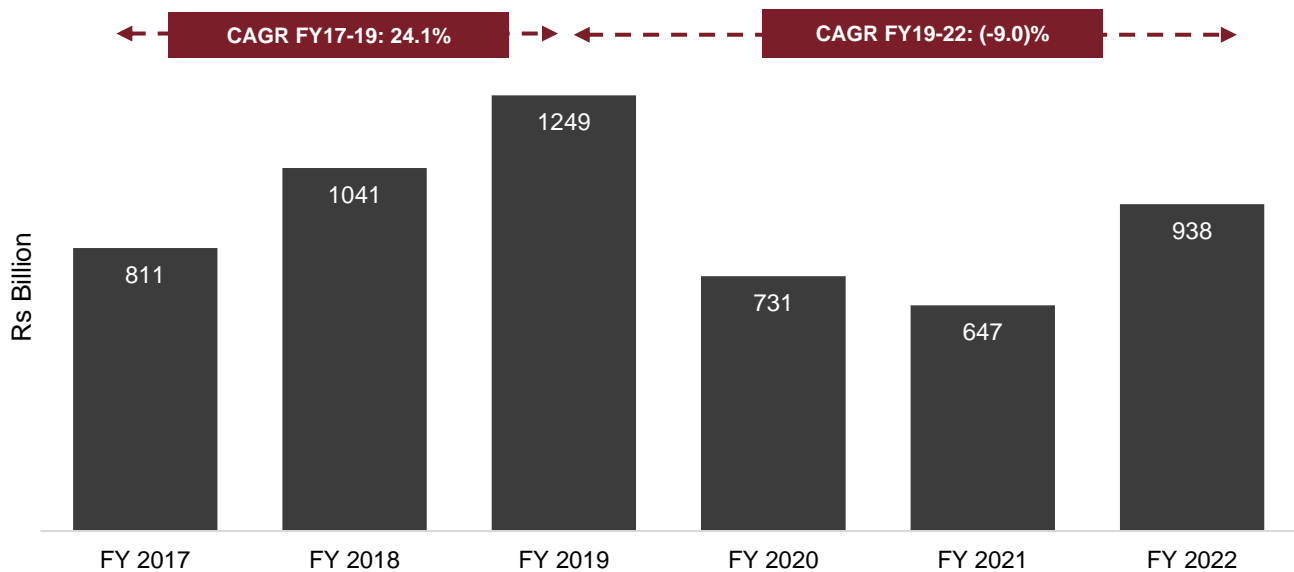
### Historic domestic sales (fiscal 2017 to 2022)



Note: E – Estimated; Domestic sales are exclusive of Bharat Benz sales as the same are not reported by SIAM

Source: SIAM and CRISIL Research

### CV domestic industry value trend



Source: SIAM and CRISIL Research

## Competitive landscape

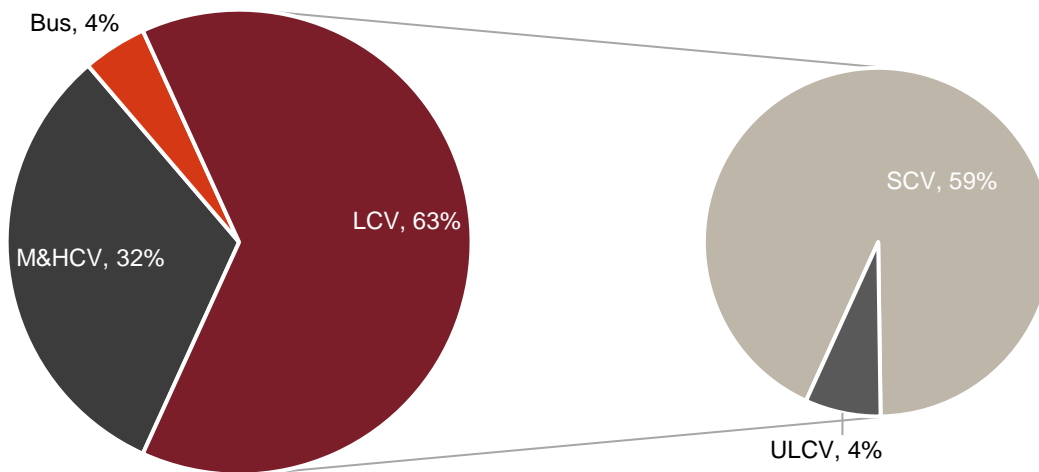
Tata Motors leads in the CVs segment in terms of market share, followed by Mahindra & Mahindra and Ashok Leyland (ALL).

In recent times, VECV has gained share in the overall commercial vehicles segment, whereas MSIL and ALL are doing well in the Light commercial vehicles – LCV segment.

In the Medium and Heavy commercial vehicles – M&HCVs segment, Tata Motors has gained share in fiscal 2022 over fiscal 2021.

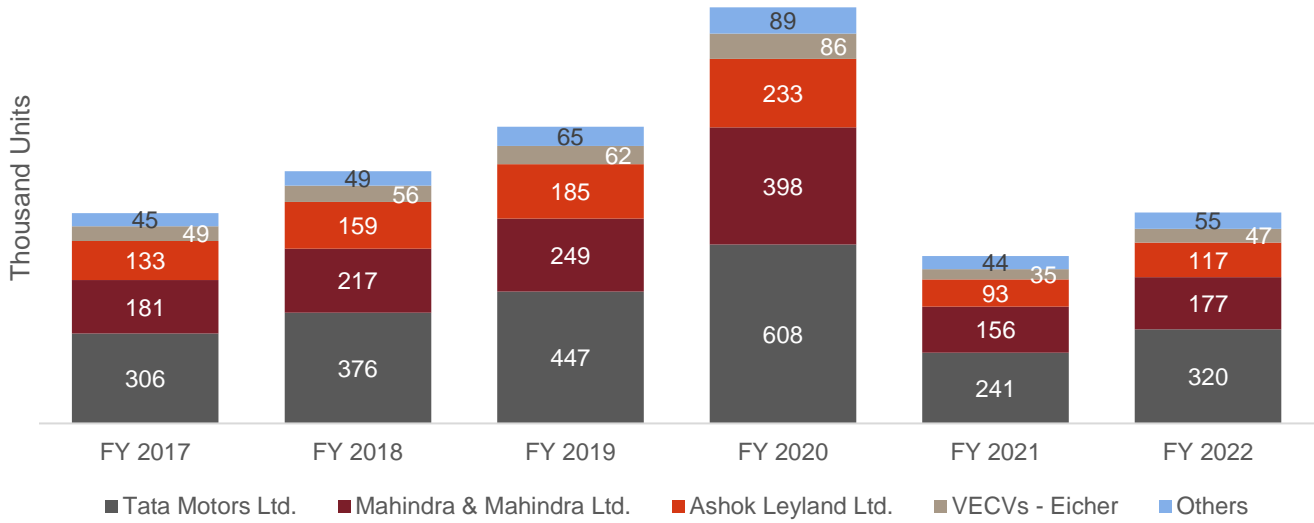
In the Small commercial vehicles -SCV segment, Mahindra & Mahindra has gained share in fiscal 2022 over fiscal 2021, owing to the performance of their vehicles – Bolero Pick Up and Supro.

### Segment wise sales split FY22



Source: SIAM and CRISIL Research

**CV industry split by OEM domestic sales volumes**



Source: SIAM and CRISIL Research

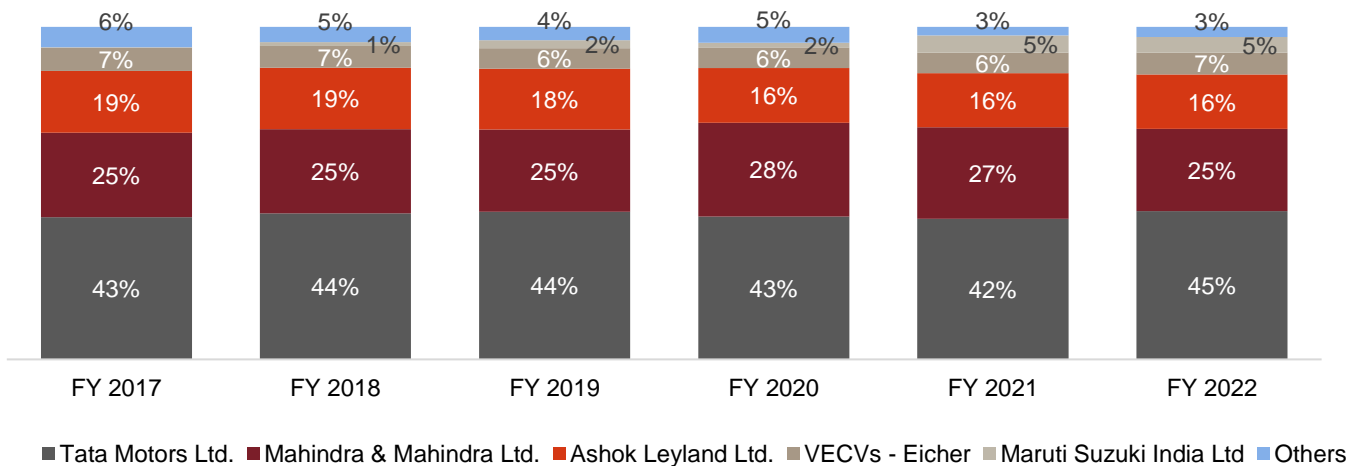
While Maruti Suzuki has gained share in the <2T GVW category, ALL and Tata Motors have garnered share in the 2T to 3.5T category owing to the performance of their vehicles – ‘Dost’ for ALL and ‘Ace’ for Tata Motors.

Despite the launch of new products by ALL and MSIL, Tata Motors has been able to almost maintain its market share in the SCVs space, as their Intra platform has been able to garner some traction in this segment.

ALL has gained share in LCV segment while lost some ground to VECV in M&HCV segment.

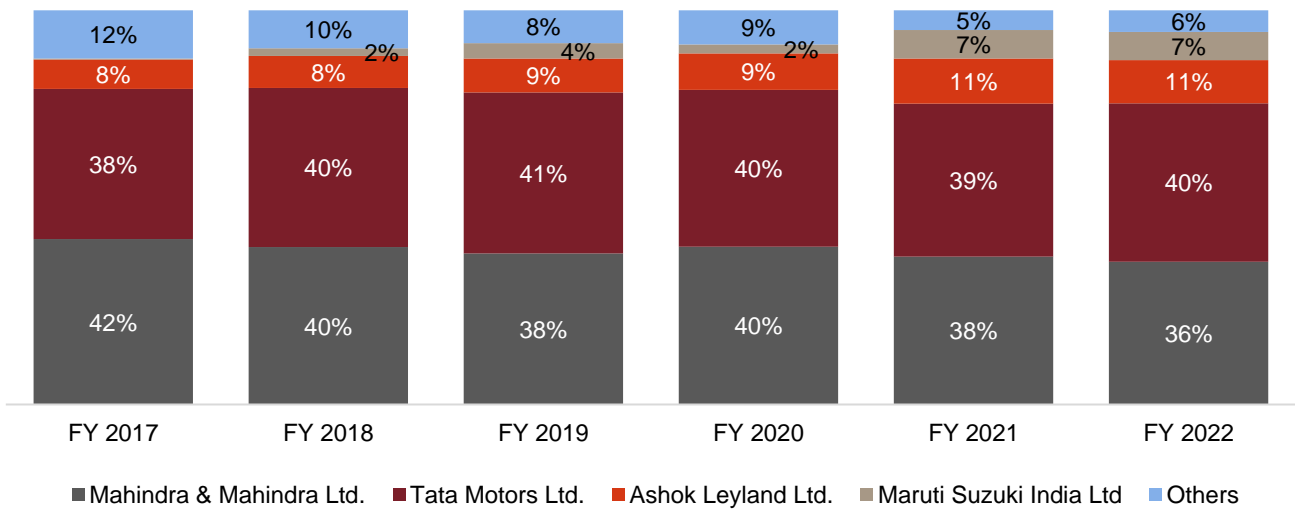
In fiscal 2022, Ashok Leyland was able to hold on to its market share in the CV space largely on account of launch of newer models such as “Bada Dost” in the LCV space which led to hold in their share in the LCV segment. At the same time ALL also launched the newer version of their MHCVs in the AVTR modular platform.

**Overall CV industry split by market share across OEMs**



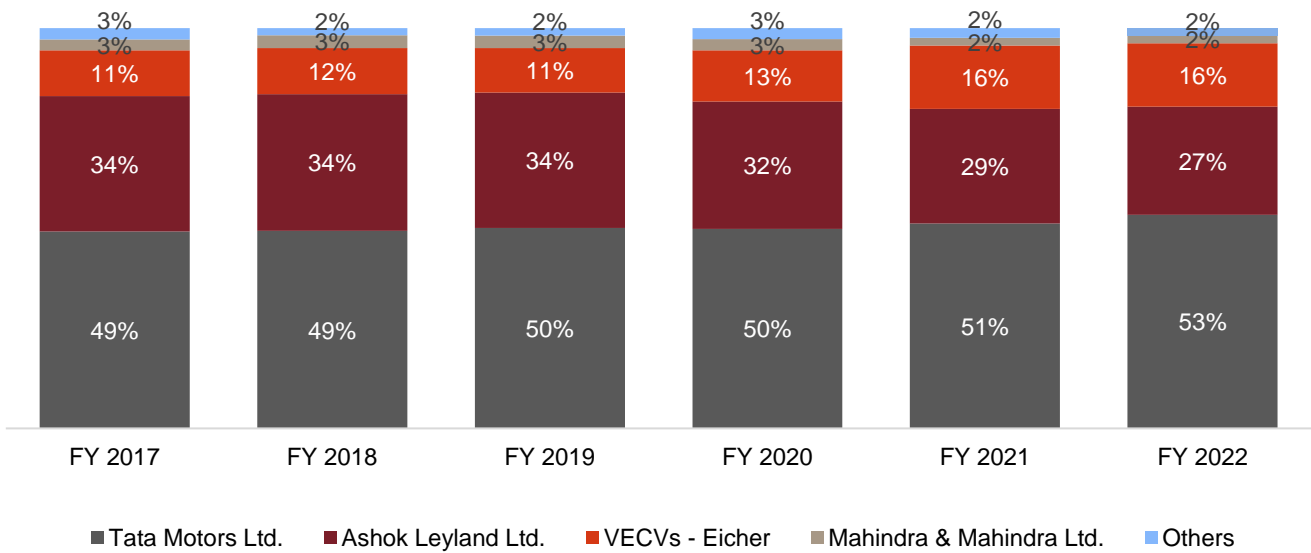
Source: SIAM and CRISIL Research

### LCV industry split by market share across OEMs



Source: SIAM and CRISIL Research

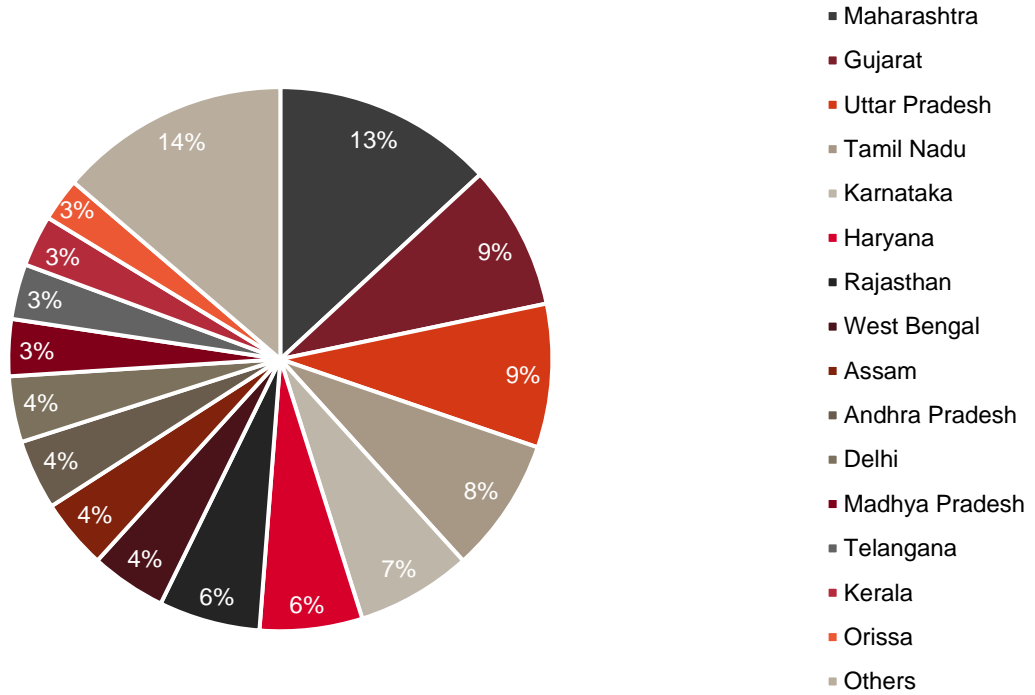
### M&HCV industry split by market share across OEMs



Source: SIAM and CRISIL Research

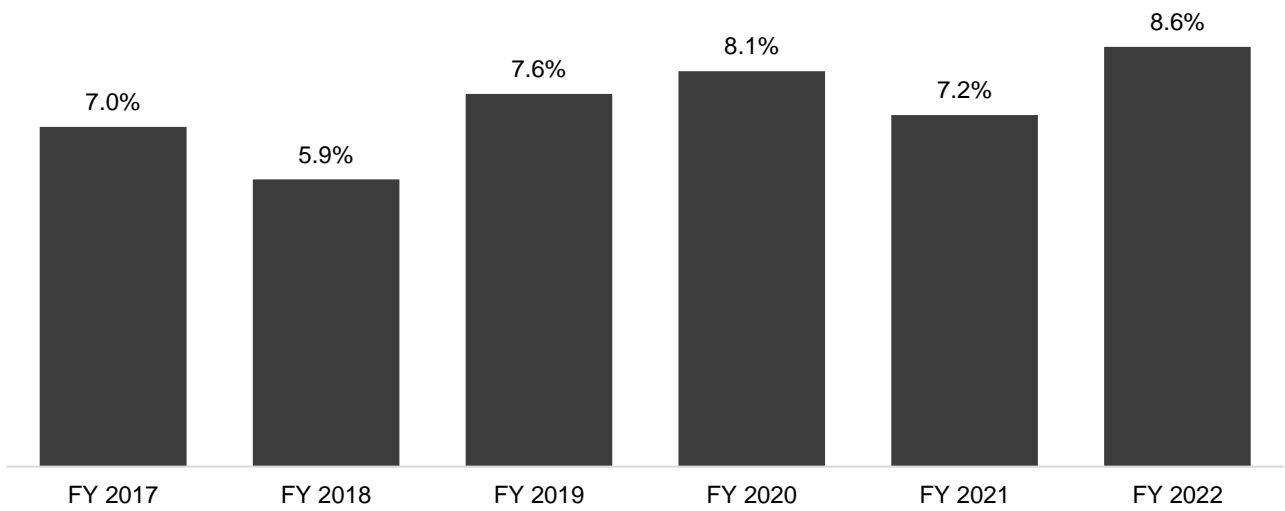
**State wise contribution to annual sales**

**Fiscal 2022**



Source: SIAM and CRISIL Research

**Contribution of Gujarat state to annual national sales**

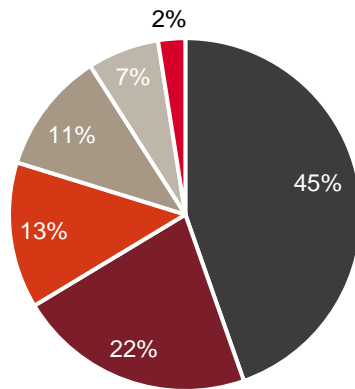


Source: SIAM and CRISIL Research

### OEM wise contribution to state CV sales

Gujarat  
FY 2022

- Tata Motors
- Mahindra
- Ashok Leyland
- MSIL
- VECV
- Others

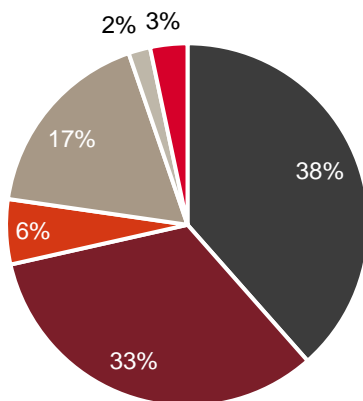


Source: SIAM and CRISIL Research

### OEM wise contribution to state LCV sales

Gujarat  
FY 2022

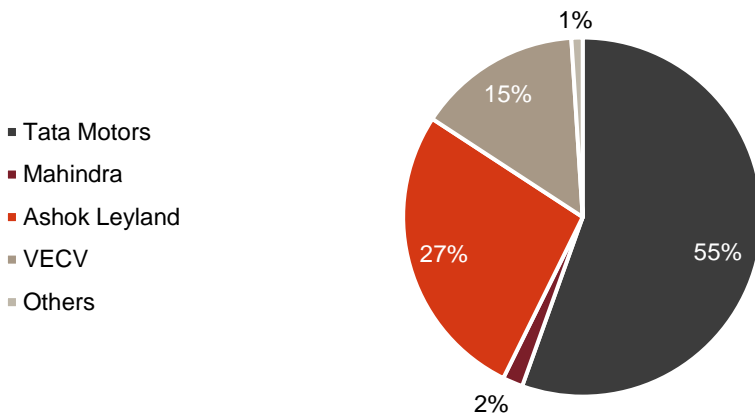
- Tata Motors
- Mahindra
- Ashok Leyland
- MSIL
- VECV
- Others



Source: SIAM and CRISIL Research

## OEM wise contribution to state M&HCV sales

Gujarat  
FY 2022



Source: SIAM and CRISIL Research

Tata Motors, Mahindra & Ashok Leyland are the three major players in Gujarat contributing 80% of CV sales.

In fiscal 2022, these three players accounted for around 80% in Gujarat. Tata Motors is the largest contributor to the Gujarat state's sales and has expanded its presence during fiscal 2022. Along with Tata Motors, MSIL and VECV has gained share in the annual sales in Gujarat.

Ashok Leyland plays a dominant role for the M&HCV segment where it is the second biggest contributor to state sales of Gujarat.

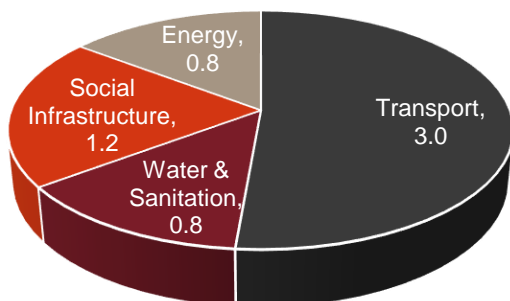
## Key trends and growth drivers

- **Stable agricultural output**
- **Fillip to industrial output**
- **Government's focus on infrastructure**

The NIP (National Infrastructure Pipeline) plan aims to double infrastructure investment per year from the current average of Rs 10 trillion per year to Rs 22 trillion per year. Of the total NIP investment of Rs 143 trillion, Rs 75 trillion (53%) worth of projects are under implementation, Rs 24 trillion (17%) worth of projects are at the conceptualisation stage, and Rs 38 trillion (27%) worth of projects are under development. Almost 83% of project allocation indirectly benefits the CV sector in India, and this push for infrastructure is a major driver of growth.

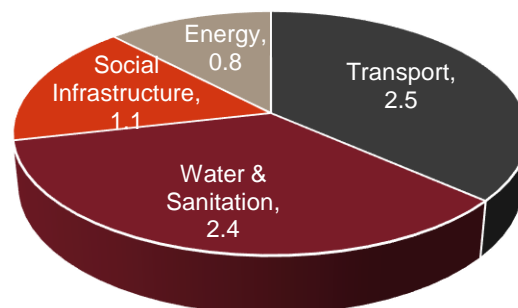
Currently, further new projects have been added to the NIP programme and the current total cost of projects under NIP stands at about Rs 143 trillion as per the India Investment Grid as of August 2022. Furthermore, the contribution Gujarat and Madhya Pradesh in NIP is fairly significant, with these two states together accounting for 9-10% of the overall planned outlay of the programme.

### Outlay of NIP projects in Gujarat (Rs trillion)



Source: India Investment Grid, CRISIL Research

### Outlay of NIP projects in Madhya Pradesh (Rs trillion)



Source: India Investment Grid, CRISIL Research

Gujarat capital outlay for fiscal 23 is proposed to be Rs 359 billion, which is an annual increase of 24% over revised estimates of fiscal 22 and 34% over the actual expenditure in fiscal 21. Of the infra projects, urban development and irrigation will see 19% and 28% higher expenditure over last year respectively. On the other hand, some drop is expected in outlay for Roads and bridges.

#### State infrastructure outlay in Gujarat (Rs Billion)

Account	FY21	FY22RE	FY23 BE
Road & Bridges	97.0	99.3	93.4
Urban development	97.0	106.4	126.4
Irrigation and flood control	71.1	71.1	91.1
Total Capital Outlay	267.8	290.2	359.0

Note: BE – Budget estimates; RE – Revised estimates

Source: Finance department, Government of Gujarat

Madhya Pradesh capital expenditure is proposed to be Rs 456.9 billion which is annual increase of 23% over revised estimates of fiscal 22 and 50% over fiscal 21. Both Road & bridges and irrigation expenditure is expected to witness significant drop from the revised estimates of last year.

#### State infrastructure outlay in Madhya Pradesh (Rs Billion)

Account	FY21	FY22RE	FY23BE
Roads & Bridges	64.9	84.9	71.8
Irrigation and flood control	110.1	112.2	84.4
Total Capital Outlay	303.6	370.9	456.9

Note: BE – Budget estimates; RE – Revised Estimates

Source: Finance department, Government of Madhya Pradesh



- **Scrappage policy**

In August 2018, the Ministry of Road Transport and Highways considered incentivising the scrapping of vehicles sold before April 2005 (15 years old). After deliberations on the modalities regarding the implementation of the norm, the government currently aims to promote vehicle scrapping by exempting registration charges for truck purchases made after scrapping older trucks. As the current registration charges are low (below ~Rs 5,000), the government simultaneously aims to increase renewal of registration for older vehicles (to Rs 40,000). To make it difficult to hold onto an older truck, trucks older than 15 years are also expected to get a fitness certificate every six months versus every 12 months that is currently the norm.

- **Commissioning of Dedicated freight corridors (DFCs) to put brakes on road freight and hence CV sales**

The dedicated freight corridor (DFC) is intended to assist the Indian Railways regain lost freight share by reducing cost and turnaround time between importing and consuming destinations, compelling several industries to realign their logistics strategies. The DFC and associated logistics parks can significantly reduce plant-level inventory, resulting in working capital savings.

Not only will the DFC bring about faster freight movement, but it will also aid the economy by decongesting major highways due to the increased shift of freight to rail. It will also allow for faster evacuation of cargo from ports, improving efficiency. Thus, roads, which have outperformed rail over the past decade, will lose some share to rail once the DFC is commissioned.

Tractor trailers will be the most vulnerable to competition from the railways, following completion of the eastern and western DFCs. These routes account for more than 20% of pan-India primary freight in billion tonne kilometres (BTKM) terms. Container traffic (~65% of the western corridor) and bulk commodities (~89% of the eastern corridor), which dominate the freight carried on these routes, are expected to shift to railways, thus impacting sales of MHCVs, especially T-Trailers.

In fiscal 2022, almost ~83% financial progress has been observed across the DFC. Movement of fertiliser from Gujarat to North India would drive rail share from fiscal 2023 impacting T-trailer demand. Complete commissioning of the DFC is expected to take place by the end of fiscal 2024.

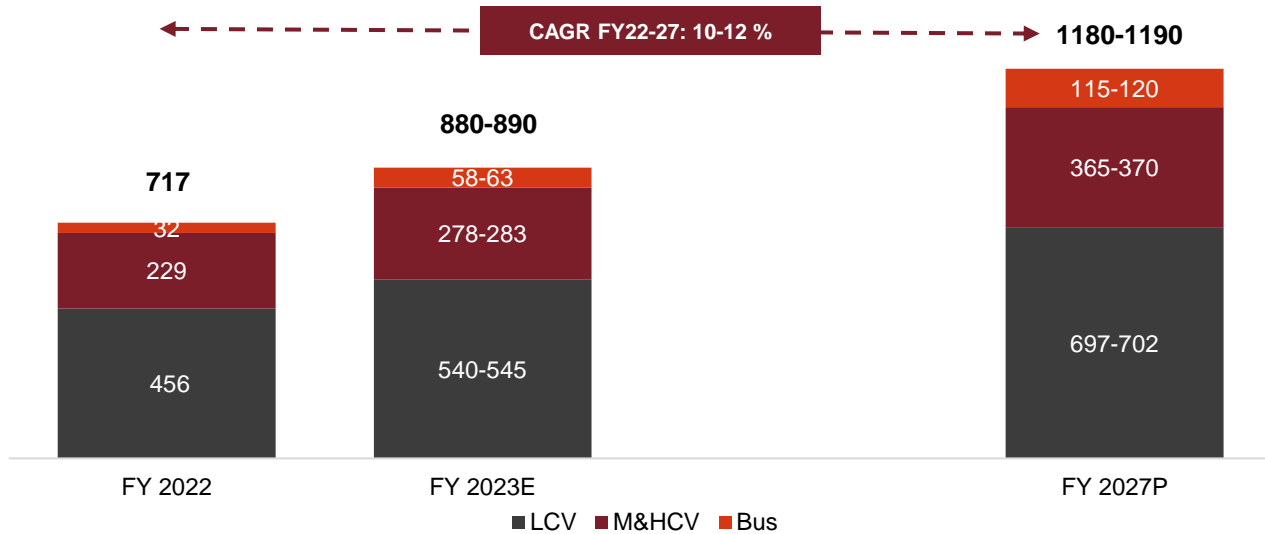
## **Outlook of the Indian CV industry (between fiscals 2022 and 2027P)**

### **Domestic sales outlook (between fiscals 2022 and 2027P)**

CRISIL Research expects overall CV domestic sales volume to grow by 10-12% between fiscals 2022 and 2027 in line with economic recovery across segments, improving transporter profitability and materialisation of deferred replacement demand.

In fiscal 2023, sales are likely to be driven over a low base of fiscal 2022, with a gradual pick up in industrial activity and people mobility as the pace of vaccination drives is accelerating. Further, rising domestic consumption, improving rural incomes, increasing exports (through realignment of global supply chains and the government's production-linked-incentive scheme), government's focus on infrastructure investments (through NIP-National Infrastructure Pipeline), and initiation of commercial mining in India are likely to steer growth between fiscals 2023 and 2027. Roll out of the scrappage policy would further aid domestic CV demand.

## CV domestic sales outlook (In thousand units)



Note: E - Estimated; P – Projected, Domestic sales exclude Bharat Benz's sales as its sales figures are not reported by SIAM  
Source: SIAM, CRISIL Research

### M&HCV sales to grow at a modest pace in the long run

MHCV sales are likely to rise by ~9-11% compound annual growth rate (CAGR), over a low base, from fiscal 2022 to 2027 (five-year CAGR), as compared to the previous five-year (FY17-22) fall in CAGR of ~2%. The decline in the past can primarily be attributed to two continuous abnormal years in fiscals 2020 and 2021. Furthermore, tonnage addition is expected to enhance in-line due to a better product mix (higher growth in MAV and T-Trailer demand despite a shift to lower tonnage vehicles due to axle norm).

Factors driving long-term MHCV sales will be the improving industrial activity in the country, steady agricultural output, and the government's focus on infrastructure. However, volume growth will be limited due to efficiencies achieved from the goods and services tax (GST), better road infrastructure along with the commissioning of the dedicated freight corridor (DFC).

Improvement in road infrastructure is expected to increase the average speed of trucks, leading to efficiency gain of ~10%. Hence, fewer trucks will be required to move the same quantity of goods, lowering truck demand. On the other hand, increased running of trucks will help improve the competitiveness of the road transportation industry, helping attract more freight.

### LCV demand to grow moderately in the long run

Light commercial vehicle (LCV) demand is expected to expand at ~8-10% CAGR from fiscal 2022 to 2027, due to higher private consumption, lower penetration, greater availability of redistribution freight and improved finance. Upper-end light commercial vehicles (ULCVs) offer the transporter lower returns, as compared with ICVs, and are most suited for captive use.

Within LCVs, the shift towards pick-ups (which carry higher loads) from sub-one tonne vehicles, though, will curtail a sharper rise in sales volume, as fewer trucks will be required to transport the same quantity. Entry restriction on ICV trucks and higher tonnage MHCVs is expected to keep demand from this segment buoyant. However, higher toll on ULCV trucks vis-à-vis pick-ups will limit ULCV trucks' growth.

Wide array of products in SCVs to attract volume: The SCV segment now offers a wide range of products, covering various tonnages that cater to the needs of all types of customers. Players have launched numerous products, especially over the past five years, to plug gaps in tonnages. Also, availability of CNG options is expected to sustain volumes in this segment.

### **Bus segment to log high growth until fiscal 2027**

CRISIL Research projects domestic bus sales to expand at ~29-31% CAGR between fiscals 2022 and 2027. Growth to be supported by increasing demand for inter-city/state travel, aided by better road infrastructure, and higher personal disposable incomes. The unregulated segment, which primarily caters to demand from schools, companies and inter-city travel by private operators, will remain the largest end-user.

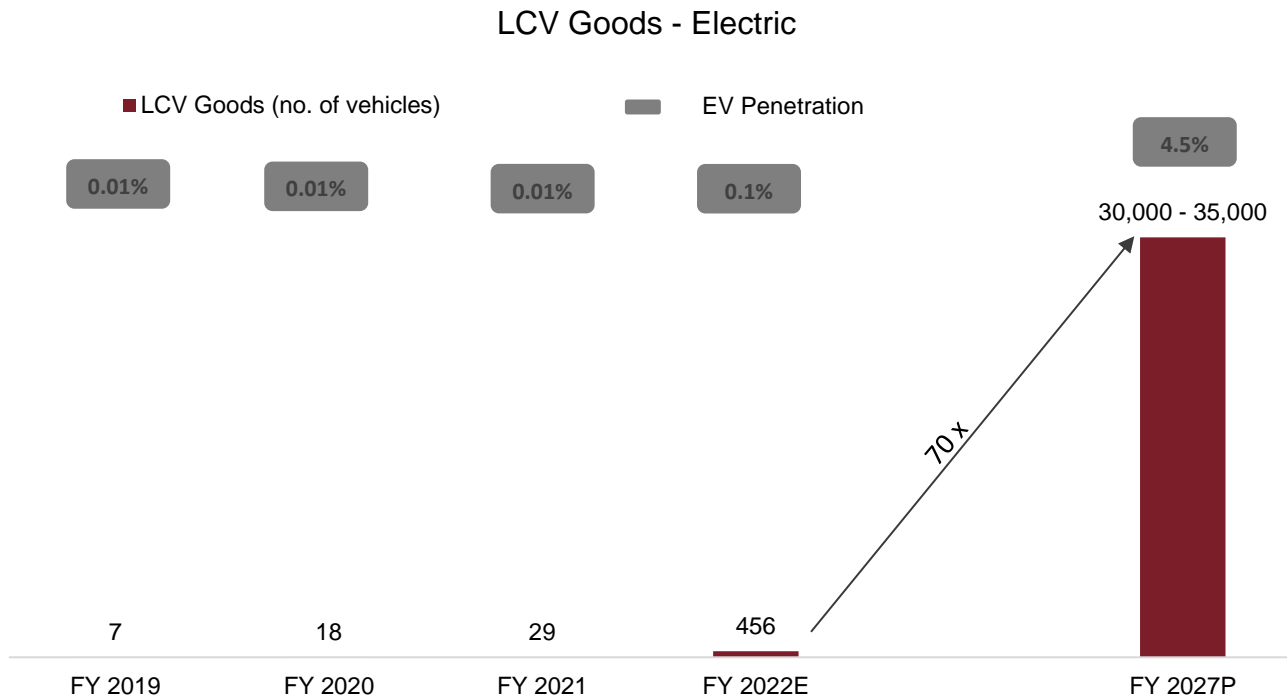
However, further expansion in bus sales would be impacted by the implementation of metro-rail and monorail in several cities. Also, in terms of penetration (buses per 1,000 persons), India ranks the lowest among countries assessed, with ~1 buses per 1,000 persons with urbanization at ~35%. An upside is possible to these calls with enforcement of scrappage policy as well as increasing urbanization and replacement of JNNURM buses bought in FY10-FY13 period.

### **Electrification outlook across vehicle segments**

#### **Electrification in LCV goods vehicles**

Currently, most of the EVs used in the commercial segment as goods carriers are three-wheelers. However, as the cost differential between electric and diesel vehicles start reducing, CRISIL Research expects new models to be launched. This will drive sales in the segment as the third-mile/last mile logistics and local distribution of goods are well suited applications for EVs.

## EV LCV goods vehicles' domestic sales outlook



Note: N.M = Not meaningful

Source: CRISIL Research

Consequently, as depicted in the chart above, EV sales in the LCV goods segment can rise to 30,000-35,000 vehicles by fiscal 2027. This would be about 4.5% of the total LCV goods vehicle market, as CNG offers better TCO (Total cost of ownership) and will be preferred over electric variants.

### Electrification in HCV goods vehicles

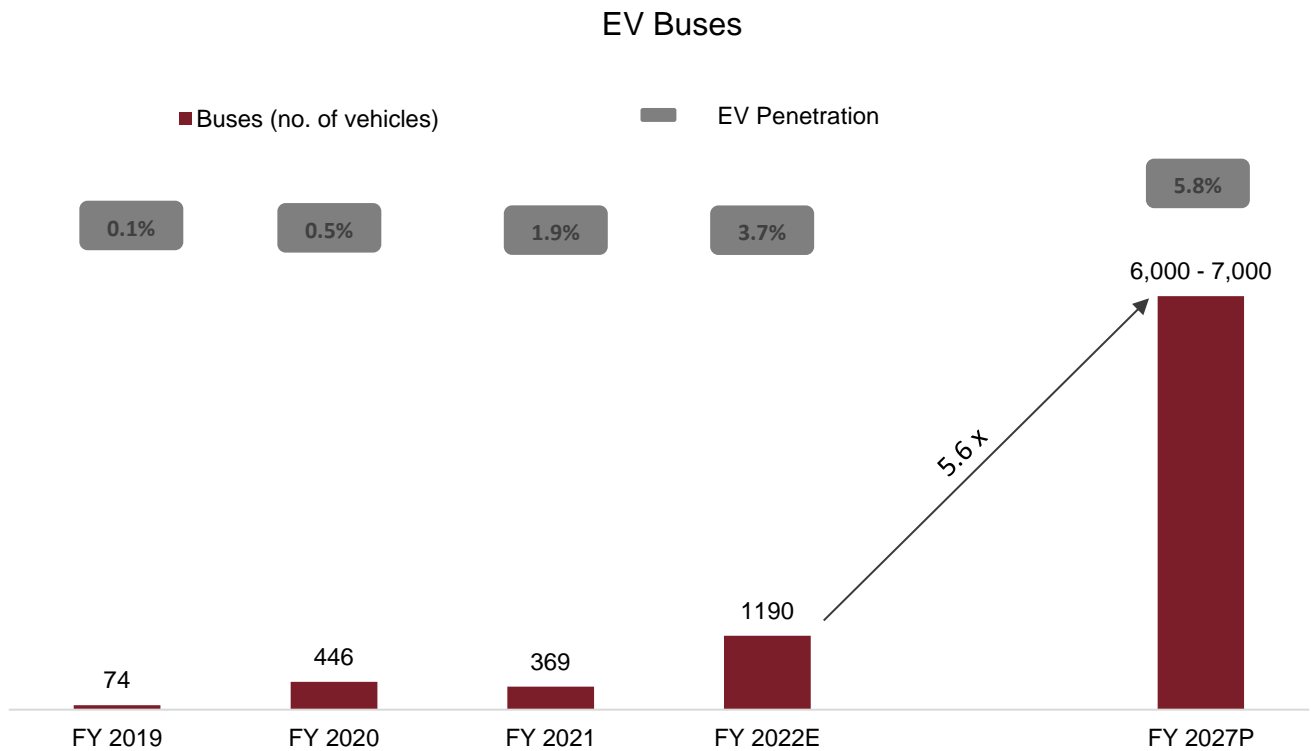
EV adoption in the HCV segment is expected to be negligible in near future as operational profile makes them highly expensive. Further, the current charging infrastructure is not suitable for larger HCV batteries, which will make electric adoption unviable for some time.

### Electrification in passenger vehicles (buses)

Due to the government support through FAME and focus on quicker adoption of EVs in public transport, there has been a significant increase in electric bus sales in the last couple of years. Under the FAME-II incentive, the government will provide subsidy amounting to Rs. 20,000 per kWh of battery used in an electric bus and a maximum of Rs. 50,00,000 per bus for 7,090 buses. The batteries used in such buses needs to be 'advanced batteries' with specific energy density of at least 70Wh/kg and cycle life of at least 1000 cycles. The total demand subsidy under FAME-II scheme is Rs. ~9000 crore, a portion of which would go to buses.

Operational profiles of buses with fixed routes and regular stops make them suitable for charging at pre-determined intervals and specific locations. With other incentives from the central and state governments, the sales of electric buses are expected to reach 6,000-7,000 units (~6% of total bus sales volume) in fiscal 2027.

## EV buses' domestic sales outlook



Note: N.M = Not meaningful

Source: CRISIL Research

There could be some minor penetration in ICVs going forward; however, for MCVs and MAVs, CRISIL Research expect the dominance of diesel fuel to continue with LNG making some inroads.

## 6. Automobile dealership industry in India

Dealerships form an intrinsic part of the automobile sector, playing the role of an intermediary between the customers and the manufacturers. The dealership plays an indispensable role in the overall vehicle supply chain providing local vehicle distribution channel based on a contract with an automaker. It also plays a key role in the aftermarket space by providing maintenance services and supplying spares/automotive parts as well as accessories.

From manufacturers' perspective, dealers play the crucial role of retail distribution at regional, city and local levels and also provide manufacturers with customer insights that are very useful in the production planning of manufacturers.

Dealers support customers from the initial phase with guidance for vehicle selection and also assist in the necessary vehicle financing. They facilitate a smooth transfer of vehicle from manufacturer to customer, assisting in registration and required insurance formalities. Additionally, the dealers also provide required support for accessorising and vehicle customisation.

For financial institutions, dealerships provide a huge business opportunity in the form of retail finance as well as inventory funding. Even for insurance providers, dealerships act as an easy avenue of new customer acquisitions.

A dealership is a one-stop shop for all the below requirements:

- Buying a new vehicle
- Vehicle repair & servicing
- Regular maintenance/ AMC
- Buying necessary spares/ lubricants
- Vehicle accident repair
- Buying a pre-owned vehicle
- Selling/ exchanging the old vehicle
- Availing required financing
- Buying vehicle insurance
- Renewing vehicle insurance
- Vehicle registration
- Vehicle customisation/ beautification
- Buying accessories
- Insurance claims (for accident repair)
- Availing additional services such as anti-rust coating, paint protection, interior clean up, etc.

As of fiscal 2022, there were around 17,000 dealerships with nearly 28,000 touchpoints across India catering to customers of two-wheelers, passenger vehicles, CVs, three-wheelers and tractors. These dealerships employ ~ 4.5 million people at sales outlets and associated service centres combined.

Two-wheelers typically dominate the number of dealerships with nearly 60% share, followed by the passenger vehicles segment with ~15% share and CVs forming another 8-10%. The remaining is formed by three-wheelers and tractor dealers. Presence of three-wheelers and tractor distributorships is relatively limited.

## **Dealership scenario in India**

In India, a typical dealer is associated with one or more manufacturers across vehicle segments: CVs, PVs, two-wheelers, three-wheelers & tractors. While smaller dealers associate with one particular manufacturer of a single vehicle segment, larger dealers associate with multiple manufacturers across segments, diversifying their investments.

Dealers normally have three types of outlets: sales-service-spares (3S), only sales (1S), and only workshops. Most large dealers have multiple outlets or touch points with a few 3S outlets and many workshops/ service stations across the city. They also have a large sub-dealer network that works under the umbrella dealership and caters to smaller semi-urban/ rural areas nearby. A few dealers also have ARDs (authorised representative of the dealer) that provide the minimal required services to customers in rural areas. ARDs are more prominent in the two-wheeler segment.

For PV dealers, the main dealer has a few 3S dealership outlets in major cities, complemented by a large number of workshops catering to service and maintenance demand. Moreover, PV dealers also have an affiliated OEM franchised dealership for pre-owned vehicles like True Value, H-Promise, U Trust, etc.

CV dealers typically have their 3S dealerships outside the city, while the smaller, only sales outlets (especially for LCVs) are located within the city. They also have a large number of workshops on the major highways providing service support. Separate affiliated pre-owned vehicle dealerships are not common in the CV segment.

Small dealers normally have 1-3 sales outlets and 2-4 workshops in one particular city or town. Large dealers have 10-15 outlets in multiple cities across 1-2 states, with 20-40 service outlets and a network of sub-dealers.

Larger dealerships offer significant advantages and better profitability to dealers in terms of economies of scale, better negotiation with manufacturers, increased workshop revenue, better insurance finance deals as well as higher customer retention. (These advantages have been discussed in detail in subsequent chapters).

However, dealers are not able to expand exponentially in a short span of time, given the very high investment required to open a dealership as well as due to the agreement conditions set by manufacturers. Manufacturers expand their dealerships mainly on the basis of the estimated market potential and their market share goals and typically do not allow unrestrained dealership expansion.

That leaves consolidation as the primary source of business expansion for the dealers. Consolidation is achieved by acquiring smaller dealerships as well as obtaining the dealership code from a defunct dealership. OEMs also prefer to be attached to a larger dealer with successful experience of running a dealership, ensuring higher customer satisfaction and in turn market share expansion. Moreover, larger dealerships are believed to have an upper edge in driving business process innovation like adoption of digital technology.

Currently there are only a handful of very large dealerships in India with 100+ outlets and a presence across 4-5 states compared with global dealership giants like Penske Automotive (320 outlets across the US & the UK), Autonation (320+ outlets across US), Group 1 automotive (~ 185 outlets across the US, the UK and Brazil) and Zhongsheng Group Holding (386 outlets across China). Indian dealerships are still in the development stages with

significant room for expansion. Their large size helps global dealerships expand their topline as well as bottomline, earning a few billion USD in revenue and 8-12% in gross profits.

In CY 2021, Autonation registered \$ 25.8 billion (8.1% EBITDA), Penske Automotive earned \$25.5 billion in revenue (4.9% EBITDA), while Group 1 automotive clocked \$13.5 billion (7.2% EBITDA). Chinese dealership Zhongsheng Group Holding earned \$ 27.1 billion with 6.3% EBITDA margin. These companies have clocked 3.6%, 4.9%, 4.4% and 19.6% CAGR in CY 2016-CY 2021 period.

These global dealerships also have a significant contribution (~30% by revenue compared with 5-15% for their Indian counterparts) from their pre-owned vehicle business. In volume terms, for global dealerships, 50-55% of vehicles sold are pre-owned, compared with only 20-25% for Indian dealers.

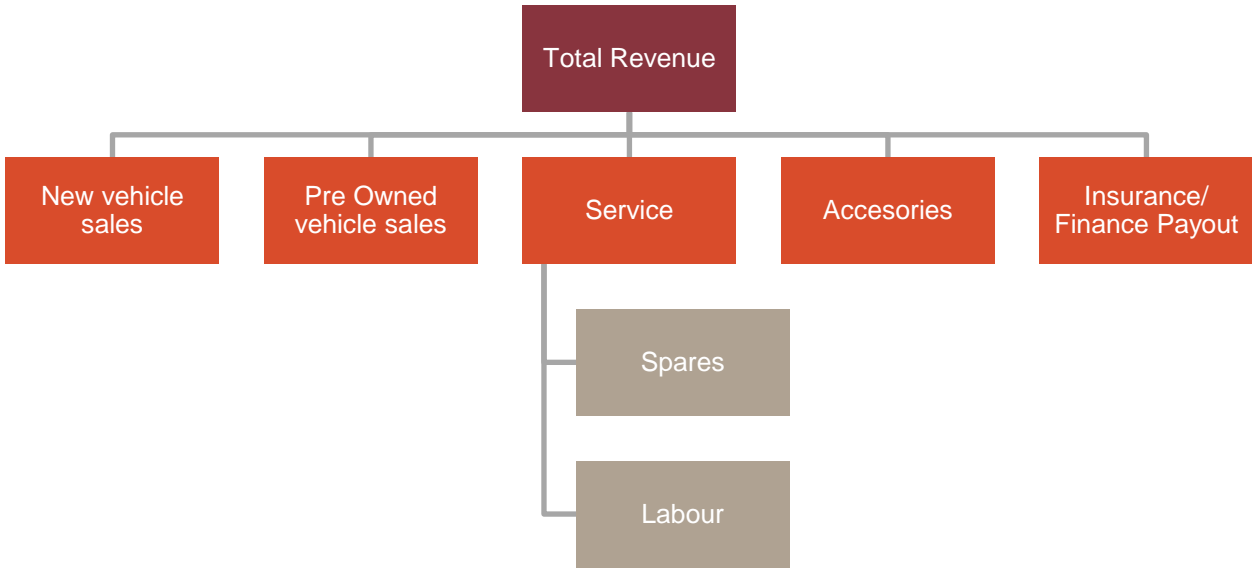
The Indian pre-owned vehicle market (predominant in PVs) is still in a nascent stage and there is huge room for growth. (The pre-owned PV segment is covered in detail in a separate section).

### Dealership income

For an automotive dealer, there are 5 major income/revenue streams. Vehicle sales (New & pre owned), service, accessories sale and commission from financing and insurance.

Vehicle sales remains the primary source of income contributing 60-70% of the revenue, followed by service (regular maintenance & repair) contributing 20-25% of the revenue. Revenue from sale of accessories and insurance / finance commission provides the rest 5-10% (for PV).

### Revenue streams for a dealership



In the CV industry, the sale of pre-owned vehicles is mainly undertaken by independent brokers, and its contribution to CV dealers is insignificant. And CV segment does not require many accessories, hence, its share in the dealer revenue is inconsequential. (Vehicle segment wise dynamics are discussed in the subsequent chapters)

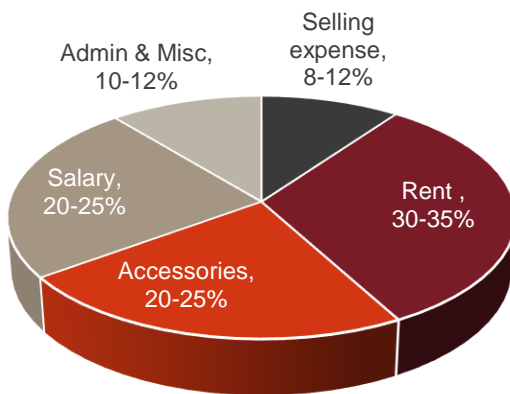


## Dealership costs

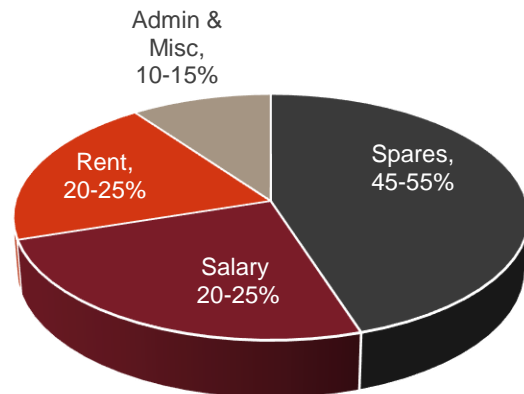
For any dealer, the primary cost (80-85%) is the vehicle purchase, which completely dominates the overall costing for the dealer. The rest 15-20% of the cost is used for employee benefits/ salary, rent, marketing expenses, admin & other miscellaneous costs. Employee benefits adds 6-8% to the total costs while rent is an additional 3-5% expense for the dealer.

Vehicle purchase costs are more or less fixed and are beyond the direct control of the dealer. However, the dealer can curtail the rest 15-20% cost to increase his profitability.

### Operational cost breakup - Showroom



### Operational cost breakup - Workshop



Source: Industry, CRISIL Research

In a normal mass/premium vehicle showroom, employee salaries and accessories form ~45-50% of the showroom costs while rent is the major expense adding 30-35% of the costs. Unlike PV dealerships, dealer costs for accessories are not significant for a CV dealership. For the dealer workshop, components add the major costs followed by real estate/ rent costs.

A normal mass market/ premium vehicle showroom including workshop is 30-50 k sq ft. To attract more customers, showrooms are located in prime areas and given the sky-high land rates in tier 1 & metro cities, most dealers do not prefer to buy the land parcel, instead prefer to lease it. However, even the rental costs for such a large space are exorbitant. In metro cities like Mumbai, Delhi, Bangalore, monthly rental costs are Rs 100-200 per sq ft in prime areas, costing 10-15 lakh per month to the dealer for 10k sq ft outlet.

Hence, to minimize their real estate costs, dealers limit the prime location outlet to only sales and open a 3S dealership in the city outskirts. Many dealers also open workshop only outlets which are typically situated on the outskirts where the rents are relatively lower.

Many large dealers who have multiple OE dealerships opt for a co sharing of space where from the same compound, dealers offer multiple brands across mass market/ premium/ luxury PV as well as CV segments. Using the shared space offers a lot of advantages for the dealer including the economies of scale, better utilization, shared infrastructure, shared resources and in turn cost optimization.

The real estate costs gained a significant importance during the pandemic. On one hand, dealership operations were closed for almost a quarter, dealers were not earning any revenue, but on the other hand, dealers had to shoulder the burden of normal fixed costs in the form of rental cost and employee benefit expenses. Dealers could curtail selling and admin/ miscellaneous costs. They could even cut down on employee expenses by employee optimisation, wage reduction and downsizing. There was no short-term solution for cost reduction in the fixed real estate costs.

Amidst the prolonged lull in the market with limited dealer earning, high rental costs turned out to be the last nail in the coffin for many dealers. This presented acquisition opportunities at attractive valuations for the large dealers. In such an unprecedented time, dealers who had optimised their real estate costs could cut down on their losses. Even dealers who had multiple OE dealership in the same compound got benefitted by the strategy.

With gradual waning of the pandemic, reopening of the economy, improvement in customer mobility, ironing out of vehicle supply issues, dealership walk ins as well as sales picked up during fiscal 2022. For PV segment, the pent up customer demand amidst the increase in need for personal mobility provided a kicker to the vehicle demand during the year, boosting the per dealership sales for dealers. This relieved the pressure on dealer finances especially the burden of the fixed costs including the real estate costs.

However, CRISIL Research expects the real estate costs to continue to remain of significant importance going ahead and real estate cost optimization will give the dealer an edge over others.

## **PV (mass market + premium vehicle) dealership landscape**

### **Dealer Revenues**

For a typical PV dealership, there are five major revenue streams.

**Vehicle sales:** Selling vehicles is the primary business for any dealership and naturally forms the lion's share of overall dealership revenue. This share is also aided by revenue earned from the sale of pre-owned passenger vehicles.

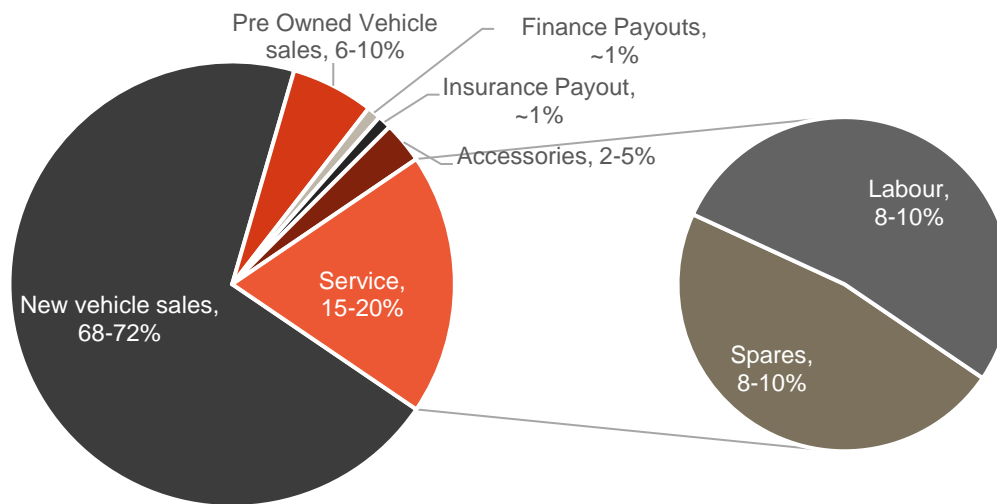
The option of exchanging an old vehicle during the purchase of a new vehicle is predominant in the PV segment, as compared with other segments, with 30-40% of vehicles sold with exchange. Thus, most dealerships provide vehicle exchange schemes that aid the overall vehicle sale revenue share. Using the digital medium, large organised players provide increased transparency in vehicle valuation and pricing aiding customer trust and providing an added impetus to vehicle sales.

Major PV manufacturers have an affiliated dealership chain like Maruti True Value, Hyundai H promise, Mahindra First Choice, Toyota U Trust, and Honda Auto Terrace that provides selling services for pre-owned vehicles. These pre-owned vehicle dealerships are typically affiliated with a new vehicle sales dealership; exchanged, old vehicles from the new vehicle dealership are normally sold through these affiliated pre-owned vehicle dealerships. Moreover, typically such dealerships can accept vehicle of any brand in exchange and can sell it to the end customer.

However, most of these preowned dealerships keep exchanged vehicles of their own brand in their dealerships and sell the other brands' exchanged vehicles to other local dealers.

According to CRISIL Research, for a typical PV dealership, new vehicle sales form 68-72% share of the overall revenue, while the sale of pre-owned cars accounts for 6-10%.

## Typical revenue break-up for a PV dealer



Source: Industry, CRISIL Research

**Service:** Income from the service segment is another major source of revenue for the dealer. This includes revenue earned from sale of spares/ auto parts/ lubricants used, as well as the labour costs involved. Service revenue is earned during the regular maintenance/ periodic service visits by customers, running repairs with normal wear and tear as well as accident repair work undertaken at the dealer workshops. Service is a highly profitable and perceptible growth segment for a dealer.

Services revenue can be sub-divided into two major parts: spares and labour. Revenue earned by selling automotive components, parts, lubricants, etc., used for vehicle repair or maintenance is considered spares revenue; the amount charged for the effort or the technical expertise required for the vehicle repair is considered labour revenue. For PV dealers, parts and labour costs contribute equally to the service revenue.

Many customers use authorised workshops as long as the vehicle is under warranty. Once the warranty lapses, roadside mechanics are preferred over authorised dealership workshops. This is mainly due to customer perceptions about dealer workshops being relatively more expensive. Moreover, unlike the local mechanics, dealerships use only genuine, branded spare parts which are more expensive, increasing the overall repair costs for customers.

However, this behaviour is less prominent amongst PV owners, given the relatively lower running and repair requirements of PVs, as well as customers' willingness to spend relatively more for the safety and proper maintenance of the self-used vehicles. Hence, the share of customers preferring official dealership workshops for repair even post-warranty is higher in PVs over CVs.

This is reflected in the higher share of service revenue for PV dealers, as compared with CV dealers. For PV dealers, service forms 15-20% of the revenue, while for CV dealers, service contributes 10-12% to the overall revenue.

Customer inclination towards preferring OE dealership for servicing over local mechanics is higher amongst the premium PV owners vis a vis mass market vehicle owners. Premium vehicles customers typically belong to upper middle class and rich class and are relatively better off than the mass market customers and do not hesitate to spend extra for genuine parts and consumables.

Dealers also provide extended warranty option to the customers ensuring continued usage of authorised service centres. Moreover, dealers, especially larger ones, emphasize on using white labelled products during the warranty servicing, securing the extended preference for their own authorized service centres. To ensure customer retention, dealers also focus on providing quality work, better customer experience through high class customer care division and use of analytics to understand customer needs.

In recent years, the use of sensors and other state-of-the-art technology has increased significantly in PVs. These upgrades have improved vehicle efficiency as well as user driving experience; however, the repair of such vehicles requires IT-backed automated repair systems and enhanced technical expertise that roadside mechanics may not have access to.

CRISIL Research expects the share of revenue from services to expand going forward on the back of the increased requirement for technical expertise as well as supporting repair infrastructure to repair the latest advanced vehicles that only organised dealerships can provide.

This is expected to contribute to higher retention of customers, especially for large dealers and is expected to grow in the future as technology in the vehicles improves further.

**Accessories:** For a PV owner, parking sensor/camera, GPS/ navigation system, LED headlamps, music system, speakers, seat covers, floor mats, car cover, wheel covers, air fresheners, tyre inflators, etc., form part of the requisite accessories list. Depending on the vehicle and the variant, a few of these accessories come pre-installed/ packaged with the car price. However, for most vehicles, many of these have to be bought separately. All PV dealers provide a collection of such accessories at their showrooms.

Moreover, dealers also provide a few value-added services like:

- Sunscreen film
- Anti-rust coating
- Under body coating
- Rodent repellent
- Ceramic coating
- Fumigation
- Upholstery cleaning
- AC cleaning and disinfecting
- Paint/ polish protection
- Windscreen treatment

- Headlight/taillight treatment

Sale of these accessories and value-added services provides an additional source of revenue for the dealers. The revenue from accessories typically forms 1-4% of the overall revenue for PV dealers. Value-added services are also very high in terms of margins.

**Finance payouts:** Financing is an integral part of vehicle purchase. For the PV segment, finance penetration is between 75-80%. PV dealers facilitate easy financing for their customers through tie-ups with various banks and NBFCs. Representatives of these financial institutions are stationed in the dealerships and help customers avail financing for their vehicle purchase.

For every financing deal done from his dealership, the dealer receives a percentage of the financed amount as his commission or finance pay-out, which forms part of his overall revenue. From 0.5% of the financed amount, larger dealers can even earn commissions up to 3% of the financed amount. Typically, dealers earn 1-1.5% of the financed amount as commission.

These finance pay-outs contribute nearly 1% to the dealer's revenue.

Moreover, few OEMs who have captive NBFCs in addition to financing offer customers customised service packages which helps dealers with customer retention.

**Insurance payouts:** When purchasing a new vehicle, the Motor Vehicles Act mandates customers to avail vehicle insurance for damage to any third party involved in case of an accident.

To comply with the same, dealers provide support to customers through various insurance schemes offered by insurance companies registered with the Insurance Regulatory and Development Authority (IRDA). Many customers also prefer to opt for extended cover for Own damage (OD) ensuring safety of their vehicles as well as themselves.

Normally, more than 90% of the customers avail insurance through dealers while purchasing a new car. Moreover, most customers get their insurance renewed from the dealers after the expiry of initial coverage, providing another fillip to dealer revenue, especially for larger dealers who have a significant vintage. Currently, customers have to renew their insurance coverage every year.

In line with finance pay outs, dealers also earn a percentage of premium as a commission from the vehicle insurance done at their dealerships. Larger dealers can even get up to 19.5% of premium as a commission. These commissions form ~1% of dealers' overall revenue.

## Dealer additions

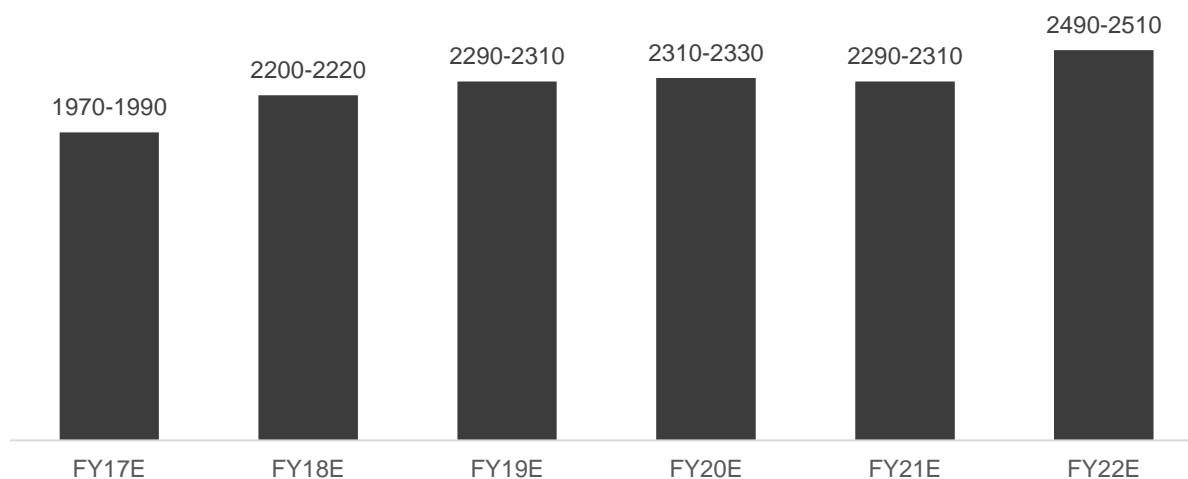
PV dealerships form ~15% of overall dealerships in India and contribute to ~25% of the overall touchpoints in fiscal 2022.

Primary PV dealerships are typically based out of large cities with multiple outlets throughout the city and a touch point network covering nearby semi-urban and rural areas. All the multiple outlets and touch points work under the umbrella dealership where the primary dealership handles overall ordering and procurement.

Dealerships are allotted by manufacturers based on their coverage of that region, mapping of the competition, expected retail sales and their market share goals. Dealer expansion is primarily done taking into account the macroeconomic environment and the future growth prospects of the industry. Manufacturers also introduce

dealerships in line with their long-term goals. In such cases, large dealerships with good long-term track record are favored during new allotments.

### Trend in number of dealerships



Source: Industry, CRISIL Research

In the last 5 years, OEMs expanded their dealership network gradually in tandem with the PV sales. New entrants like KIA, MG provided an added push to the expanding dealership network.

However, pandemic put brakes on this expansion during fiscal 2021. An unfavourable macroeconomic environment and declining sales impacted dealership operations across the automobile segments. During this difficult period, dealers had to bear the financial burden of fixed costs as well as interest, while their income avenues were very limited. The added cost of complying with strict Covid-19 protocols exacerbated the situation, which made the dealerships unviable for many. CRISIL Research estimates that 2-4% of dealerships shut during the fiscal 2021.

However, despite the second wave, PV industry registered a revival in fiscal 2022, amidst the previous bookings for newly launched cars, increased need for personal mobility due to the pandemic, as well as pent-up demand. Reopening of the markets, increased inoculation levels, increased mobility, improvement in production levels provided a fillip to PV sales during the fiscal. Wholesales improved 13% y-o-y while retail sales clocked nearly 15% y-o-y growth in fiscal 2022.

In line with the increasing sales, future sales expectation, new vehicle launch line up and the increased market share targets, OEMs revived their network expansion plans and accelerated dealership expansion during the fiscal 2022.

CRISIL Research estimates 8-10% network expansion in fiscal 2022 from a low base of fiscal 2021. The expansion was primarily undertaken by Tata Motors- which has been fast expanding its presence in the market and KIA motors. Hyundai Motors as well as Toyota India also expanded its network during the year.

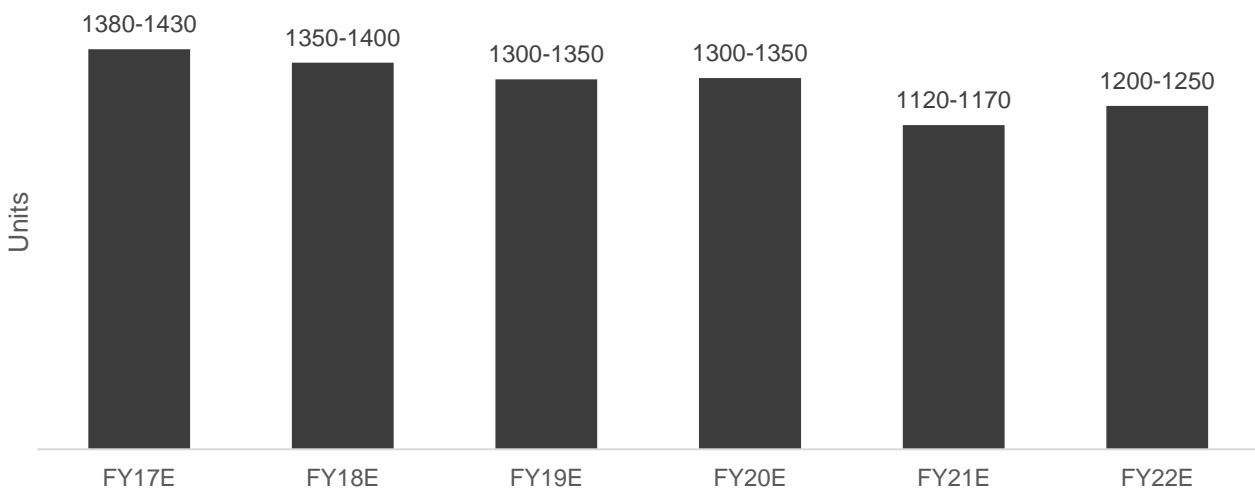
CRISIL Research expects the network expansion to continue going ahead albeit at a gradual pace in tandem with the industry sales growth expectations.

## Average dealership sales

For a PV dealer, revenue from new vehicle sales forms a dominant 65-75% share of total revenue. There are two factors which directly impact dealer vehicle revenue- vehicle retail demand and the number of dealerships catering to that demand.

During fiscal 2022, retail sales shot up nearly 15% y-o-y. Dealership network also expanded during the year, however, at a slower pace, providing a fillip to the average dealership sales.

### Average sales per dealership trend for PV dealers



*Note: These represent average sales per dealership which are nearly 3x of the average sales per touchpoint*

*Source: Industry, SIAM, CRISIL Research*

Going forward, dealership additions are expected to be in sync with economic growth as well as the estimated growth in PV sales. New OEM entrants are expected to continue their network expansion, especially in tier 2/ tier 3 cities, while dealership expansion for established players is expected to remain relatively subdued. While vehicle sales are expected to continue on a growing trend, providing a push to average sales per dealerships levels in the long term.

## Dealer profitability

Margins received from the revenue segments vary significantly. Although vehicle sales dominate overall revenue, returns from the same are among the lowest; on the other hand, service /spares and accessories sales form a relatively smaller share of total revenue but their contribution to overall profits is significant.

### Deep dive into the profitability of each revenue segment:

- **New vehicle sales:** The margin earned by the dealer from new vehicle sales is the per vehicle margin paid by the manufacturer to the dealer. Manufacturers pay dealers a percentage of the vehicle price as a fixed margin. While this margin is decided by the manufacturer and is similar for all the dealers of that particular manufacturer across India, it does vary from manufacturer to manufacturer.



Typically, luxury PV manufacturers offer relatively higher margins to their dealers, given the limited demand for luxury vehicles in India as well as the extravagant buying experience provided by the dealers.

For PVs, the per vehicle sales margin hovers around 3-5%, varying marginally from manufacturer to manufacturer. Luxury PV manufacturers provide a relatively higher margin of 6-8% per vehicle.

Over and above this per vehicle margin, manufacturers also offer added incentives to dealers, based on the dealer's performance, the quantum of the vehicles sold by the dealer, target completion, manufacturer market share goals, seasonality, etc. These incentives vary from region to region as well as from dealer to dealer.

For a well-established large dealer, these incentives can provide an additional margin of 3-5% per vehicle, taking the overall margin achieved per vehicle to 5-7% for a normal PV dealer. A luxury vehicle dealer can achieve a 8-10% per vehicle margin, including incentives. During fiscal 2022, OEMs extended higher support to dealers through increased vehicle margins.

Going forward, CRISIL Research expects growth in dealer revenues to continue to be supported by estimated increase in vehicle sales as well as hike a vehicle price. Over and above the yearly price hike undertaken by OEMs each year, the compliance with safety and emission norms is expected to push the vehicle prices.

Moreover, the shift in customer preference from basic small cars to premium hatchbacks and compact UVs to provide an additional fillip to average vehicle prices and in turn, dealer revenues.

- **Pre-owned vehicle sales:** The pre-owned vehicle sales segment is more common in the PV segment, as compared with CVs. Most manufacturers offer exchange schemes at their new vehicle sales outlets.

The pre-owned vehicles received in exchange are typically routed to their pre-owned vehicle sales arms like True Value, First Choice, U Trust, Auto Terrace, H Promise, etc., where the old vehicles are refurbished and sold to customers.

Margins in the pre-owned vehicle sales segment vary significantly from vehicle to vehicle, depending on the vintage and the state of the vehicle being sold. It also depends on the original make of the vehicle. Even in the pre-owned vehicle market, a few brands enjoy higher traction while others are normally avoided. Although these notions are primarily based only on customer brand perceptions, they play a sizeable role in pre-owned vehicle price negotiations.

Margins in this segment vary from 5-10%. Vehicle prices increased during the fiscal 2022, also providing an additional support to dealer margins.

- **Service:** The major contributor to dealership revenue is the service segment. Unlike vehicle sales, this segment is a high margin segment for the dealership and contributes a sizeable amount to overall dealer profitability.

All dealerships use only OEM-branded or manufacturer-approved genuine parts/ lubricants/ oils. Dealers procure these parts directly from manufacturers/ official distributors and use them in their workshops. Given the significant quantity of parts used by the dealer workshops, dealers also receive additional discounts on the same.

For a PV dealer, margins on spare parts are usually between 20-30%.

For the other major part, labour, dealer expense is limited to the salary and employee benefits offered to the workers employed in the workshop. Given the high vehicle volumes in the workshop, the same mechanic works

on several vehicles simultaneously, reducing the dealer's per vehicle employee spend. Thus, labour revenue is the most profitable segment for a dealer, with typical margins ranging between 60-80%.

For the overall service segment margins range from 45-55%.

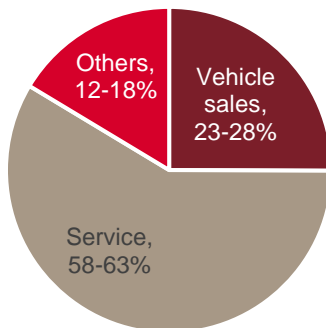
- **Accessories:** Dealers procure OE-branded accessories like seat covers, floor mats and wheel covers from the manufacturer, while the other accessories like electronics are procured from branded suppliers.

This is another high-margin segment for the dealers, with margins between 15% to 25% on some products.

- **Finance/ Insurance pay-outs:** These are relatively smaller segments for dealer revenue, contributing ~2% combined for PV dealers. This revenue is a percentage commission earned by the dealer for facilitating the finance or insurance scheme opted for by the customer.

These pay-outs do not warrant any notable additional expenses from the dealer and directly contribute to dealer profitability.

### Typical segment-wise share in gross profits



*Note: Vehicle sales include new & pre-owned PV sales, others include Accessories, finance pay out and insurance pay out*  
*Source: Industry, CRISIL Research*

The service segment is the primary contributor, contributing 58-63% to the dealer profitability. Dealers with a higher dependence on vehicle sales are at a disadvantage, given the much lower profitability margins earned from vehicle sales, compared with service which provides a 45-55% margin. Moreover, under unforeseen circumstances like the pandemic, when significant uncertainty was looming over vehicle sales, regular servicing /repair/ spare sales provided a much-needed breather to the dealers.

In the longer run, dealers with a greater focus on the service segment are expected to have an edge over others.

Despite being the preliminary revenue contributor, the profitability of the vehicle sales segment is relatively low (3-5%, not including incentives), as compared with the second largest contributor- service. And although manufacturers have supported dealers by increasing vehicle margins/ incentives over the years, the major support to dealer profitability came from the service segment, especially during the difficult period of fiscal 2021.

In line with the average sales, dealer revenue from vehicle sales was also on a downward trajectory since fiscal 2016. Fiscal 21 was very difficult for dealers with fixed costs piling up and very limited revenue.

Fiscal 2022 saw some improvement in revenue backed by sharp increase in sales, higher prices as well as premiumization trend in passenger vehicles. Dealer revenue is expected to remain positive going ahead supported by estimated rise in vehicle sales and only gradual expansion in dealer network.

Although CRISIL Research expects some improvement in vehicle sales revenue for dealers in the long run, margins earned from the segment are expected to be range bound.

### **Digital transformation to aid dealer profitability**

Like most of the other industries, digital technology is supporting dealership industry as well. From expanding customer base, easier customer acquisition, better customer connects, faster response to increased customer convenience, digital technology is transforming the dealership industry.

Automobile dealers, especially the large ones have invested in the digital technology which will support their revenue growth as well their profitability. With the help of digital technology, dealers can provide an enhanced consumer experience while optimizing their marketing and sales costs as well their manpower expenses.

CRISIL Research expects the dealers who have invested in the digital technology to have an edge over other dealers in the longer run.

### **Dealer returns**

EBITDA (earnings before interest, taxes, depreciation and amortisation) margins for PV dealers are typically in the range of 2-5%. Large dealers, given higher economies of scale, operate at 3.5-5% margins, while smaller dealers operate at 2-3%.

Large global players operate between 4-7% EBITDA margins.

Return on capital employed (ROCE) for PV dealers is generally in the range of 10-15% (as per FY21 performance). It is higher than that for CV dealers due to lower investments required for maintaining inventories and higher contribution of the high-margin services business.

Returns for PV dealers have been under pressure in the last few years amid the continued decline in average dealership sales. Fiscal 2022 provided some relief to the dealers with some improvement in average sales. CRISIL Research expects some improvement going forward with potential improvement in sales and services revenue going ahead.

### **Dealership growth drivers**

- **Estimated growth in new PV sales:** CRISIL Research expects the industry to clock 8-10% CAGR to reach 4.6-4.8 million vehicles by fiscal 2027. This growth in sales will provide a boost to the dealer revenues going ahead.
- **Continued traction for pre-owned vehicles:** Pre owned vehicles sales contribute 10-15% of the dealership revenue. Pre-owned vehicle sales have grown at a healthy CAGR of 5-7% during fiscal 2017-fiscal 2022 period.

Increased need for personal mobility, rising aspirations of customers, growing disposable income, lowering replacement cycles and increasing financial penetration will drive the growth. The expanding share of the organised segment will provide an added boost to demand.

Pre-owned vehicle industry (mass+ premium vehicles) is expected to grow at an accelerated pace of 12-14% CAGR in the next five years (fiscal 2022-fiscal 2027) boosting the dealership revenues.

- **Rise in average vehicle prices:** OEMs undertake an annual vehicle price hike every year to compensate for the rise in material costs. Moreover, prices are also increased to comply with the changing safety and emission norms. CRISIL Research expects the average price hike to continue going ahead with general annual price hike as well as price increase to accommodate the safety and emission norms.

Additionally, the premiumisation trend in the mass market/ premium PV industry is also expected to provide a kicker to the average vehicle prices supporting dealer revenue growth. Increase in share of the costlier premium vehicles, CNG, hybrid and electric vehicles will also push the vehicle prices upwards. Moreover, this will also aid the accessories revenue as well.

- **Shift towards authorized workshops:** Services segment plays a major role for a dealership. It contributes 15-20% to the dealer revenues and 58-63% to the dealer profits.

Many customers use authorised workshops as long as the vehicle is under warranty. The customer preference for authorised workshops is increasing with increase in latest technological gadgets being used in the new age vehicles.

These vehicles require higher technical expertise as well as latest tech infrastructure to repair which most local mechanics lag. Thus, higher number of customers have to depend on the authorised workshops for maintenance and repair of their vehicles. Moreover, dealers also offer attractive extended warranty / AMC schemes to the customers incentivising them to opt for an authorised dealership.

This is expected to provide traction to the dealers' service revenue growth in the longer term. Additionally, the cost of repairing the latest vehicles including components are relatively costlier providing an additional kicker to the dealer revenue growth.

- **Rising financial penetration:** Increasing support from financiers, subdued interest rates, rising LTV is expected to augment finance penetration levels.

This is expected to aid dealership revenue two folds, one by bringing newer customers/ first time buyers into the market backing dealership revenue growth and second by providing an additional revenue from the financing commission dealers earn on the financed amount.

- **Digital technology aiding revenue & margin growth:** Digital advancement is supporting the automotive dealership in customer outreach, improving customer buying experience, increased transparency and customer retention. In turn, it is helping dealers expand their reach and maintain customer connect indirectly boosting dealer revenues. Facilitating technology enabled services and digital offerings is leading to better customer satisfaction and increased customer retention. Moreover, it is also helping optimize dealership costs and reduce their overheads strengthening dealership margins.

CRISIL Research expects the digital medium to continue to provide support to the dealership operations and play a larger role going forward.

## Added advantage for large dealers

Large dealers, given the sheer size of the business, receive added benefits as well as higher economies of scale backing their better finances. A few of the major advantages are:

- **Better negotiation with manufacturers:** Large dealers enjoy higher bargaining power, as compared with smaller dealers, helping them bag better deals with manufacturers, thus boosting their profitability. Moreover, large dealers also get higher incentives per vehicle with the higher number of vehicles sold aiding their profitability further.

- **Favourable allotment of new dealerships:** Large dealerships with good long-term track record are favored by OEMs during new dealership allotments.
- **Better deals with vendors:** While procuring supplies like tyres, paint and spares from other vendors, large dealers have an edge over their smaller counterparts, ensuring higher profitability.
- **Greater share of service revenue:** Bigger dealers typically have a large number of sales outlets and an even larger number of workshops catering to the repair & service segment. This enables them to serve a higher number of vehicles, boosting their high-margin service revenue. For large dealers, the service to sale ratio, or the number of vehicles serviced to number of vehicles sold, can be in the range of (15-20): 1, whereas for smaller dealers this ratio is much flatter. Moreover, their service centres are highly automated with larger spares inventory, helping large dealers provide faster as well as better customer service. With the fast increasing advancements in vehicles, larger dealers with an exhaustive, IT-backed, state-of-the-art set-ups will be able to service new-age vehicles, providing a boost to their service segment revenue in the longer term.
- **Better insurance/ finance deals:** Dealers earn a percentage of financed amount/ insurance premium as commission from financiers/ insurance companies. The percentage earned as commission varies from dealer to dealer, depending on the volume of customers generated for the service providers. Hence, bigger dealers enjoy leverage over their smaller counterparts because of the much larger number of customers provided to the service providers. In certain cases, CRISIL Research has come across insurance pay outs as high as 19% of the premium paid.
- **Higher customer retention:** Bigger dealers provide a better buying experience to their customers, offering a relatively lavish ambience, individual attention, better bargains, including higher dealer discounts, faster delivery, wider accessory choices, immediate availability for accessories/spares, value-added services like customisation, vehicle detailing, paint protection, etc. During the Covid-19 pandemic, amidst restrained public movement, many large dealers provided home delivery of vehicles as well. All these benefits help bigger dealers retain a large share of their customers, ensuring long-term sales growth.

Additionally, better equipped workshops of large dealers also help in customer retention.

- **Higher enquiry generation:** Bigger dealers typically have a large call centre connecting with potential customers and following up with existing customers. These call centres provide a wider network coverage and better customer reach across platforms. This helps larger dealers generate more leads and, in turn, generate higher sales. These initiatives were especially helpful during the pandemic when most dealerships were closed, limiting walk-in enquiry generation.
- **Value-added services:** Over and above the normal services and accessories, dealers, especially the large ones, provide value-added services to their customers. These include services like interior/ exterior anti-rust treatment, body beautification, exterior paint polish treatment, vinyl floor mat fixing, fabric cleaning, etc., which generated additional revenue for the dealer. These are high-margin services and contribute significantly to dealer profits.
- **Multiple brand dealerships at single location:** Large dealers also get benefitted from opening multiple brand dealerships (across brands, across vehicle segments mass market/ premium / luxury PV/ CV) at a single location. Sharing of infrastructure, parking space, workshop brings in additional cost efficiencies bringing the overall costs down.
- **Others:** Large dealers also benefit from centralisation of their services as well as better utilisation of their shared services like call centres, IT backend services, HR, admin, etc.

# Luxury PV dealership landscape

## Dealer Revenues

For a luxury PV dealership, there are five major revenue streams.

**Vehicle sales:** Selling vehicles is the primary business for luxury dealerships as well and constitutes majority share of overall dealership revenue. This share is also aided by revenue earned from the sale of pre-owned/used passenger vehicles.

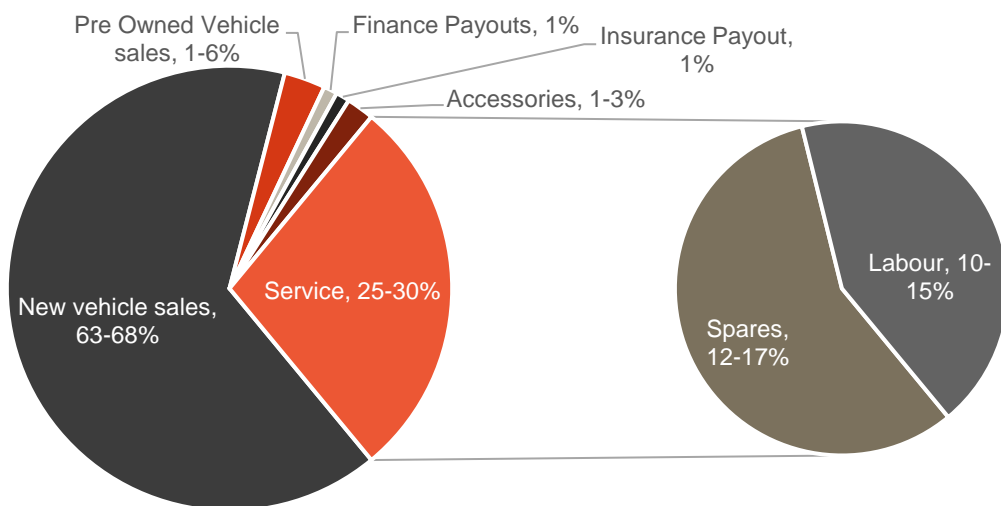
Luxury vehicle dealers offer an option of assured buyback to new vehicle customers where customers get an option of returning, keeping or exchanging the vehicle after a pre decided number (2, 3 or 5) of years. The exchange value of the car is also pre decided based on the annual running option chosen by the customers. Nearly 10-15% of the customers opt for this option. Few premium vehicle OEMs like Honda, Toyota, Mahindra also offer similar buy back options to their customers for the high end vehicles, however, there are very few takers for the scheme.

Dealers also provide an option of vehicle leasing to customers where leased vehicles are returned to the dealerships after the lease period. Limited (1-3%) number of buyers opt for leasing.

Dealers reroute these returned vehicles into their pre-owned vehicle arm and are resold as pre owned vehicles. Moreover, in line with mass/ premium dealerships, luxury vehicle dealers also provide an option of exchanging their old vehicle to customers. These exchanged vehicles are also rerouted to their pre-owned vehicle selling arm. However, luxury OEs do not have a separate affiliated pre owned vehicle dealership chain like mass market/ premium OEs offer, like True Value, Mahindra first choice, Honda Auto Terrace etc.

According to CRISIL Research, for a luxury PV dealership, new vehicle sales form 63-68% share of the overall revenue, while the sale of pre-owned cars accounts for 1-6%. Share of pre-owned car sells in the overall revenue is relatively lower for luxury dealerships compared to mass market/ premium dealerships given the lack of affiliated pre-owned vehicle chain as well as lower share of customers opting for exchange while buying luxury vehicles.

### Typical revenue break-up for a luxury PV dealer



*Note: Commission earned under ROTF model of Mercedes is covered under new vehicle sales revenue.*

Source: Industry, CRISIL Research

**Service:** Income from the service segment is another major source of revenue for the dealer. Service is a highly profitable and perceptible growth segment for a dealer.

Services revenue can be sub-divided into two major parts: spares and labour. Revenue earned by selling automotive components, parts, lubricants, etc., used for vehicle repair or maintenance is considered spares revenue; the amount charged for the effort, or the technical expertise required for the vehicle repair is considered labour revenue.

While buying the new vehicle, customers get 3-4-year warranty from the manufacturers and also get an option of extending the same at an additional cost. Post the warranty period, annual service packages (AMCs) for varying periods such as 2 years, 3 years, 5 years etc. with servicing commitments after particular kilometres, example, 15,000 kms, 30,000 kms, 40,000 kms etc. A lump sum amount depending on the number of years and kilometres are purchased from the dealers at the time of purchase of the vehicle.

Unlike mass market/ premium vehicle customers, considerable share of the luxury vehicle buyers prefer to go to authorised dealerships for maintenance and repair. Given the healthy financial backing, relatively lower running, better vehicle quality and in turn lower repair requirements of luxury vehicles, customers are typically willing to spend on the costlier authorized dealership servicing. A mass market/ premium vehicle is advised to get serviced at ~10k km after the first year, luxury vehicles are serviced after longer running of 20-25k. Luxury vehicles are serviced only once or maximum twice in a year vis a vis 2-3 times servicing requirement for mass market/ premium vehicles. Thus, customers do not hesitate to spend relatively more and opt for authorised service centres.

Additionally, a sizeable share of luxury vehicles is bought of corporates for their top management. These corporates prefer to opt for an AMC and thus, use authorised dealers for vehicle servicing over any local dealers.

While standard servicing costs 50-60 k thousand, annual maintenance contracts (AMC) costs 80k to 1 lakh per year. Many customers find the exhaustive coverage as well as the additional facilities like roadside assistance of value to warrant an additional cost of an AMC.

Thus, the share of revenue from service segment (25-30%) is relatively higher for luxury dealers compared to mass market/ premium vehicle dealers.

Moreover, CRISIL Research expects the share of revenue from services to expand going forward for luxury car dealers given the increasing requirement for technical expertise as well as supporting repair infrastructure to repair the latest advanced vehicles that only authorized dealerships can provide.

**Accessories:** Luxury cars typically have pre-installed accessories which include exterior equipment (LED headlights, LED Fog lights, Rain sensors and automatic driving lights etc.), interior equipment (floor mats, armrest, gearshift peddles, glass sunroof, ambient lighting, leather steering wheel etc.), car play, music system, parking assistant, rear view camera, airbags, anti-lock braking system, emergency spare wheel, tyre pressure indicator, seat belts for all seats, leather upholstery and alloy wheels. Very few additions are required over these pre fitted accessories. However, all these accessories are available with dealers in case a customer wants to replace or add any additional fitment.

Moreover, dealers also provide a few value-added services at an extra cost like:

- Exteriors Beautification
- Paint Protection – UV
- Surface Refinement
- Ceramic Coatings
- Car Polishing

Sale of these accessories and value-added services provides an additional source of revenue for the dealers. The revenue from accessories typically forms less than 1% of the overall revenue for luxury PV dealers.

Unlike mass market/ premium vehicles, luxury cars come pre-loaded with most accessories and customers do not have to spend a considerable amount on accessories in case of luxury vehicles. Hence the contribution from accessories is relatively limited for luxury dealers.

**Finance payouts:** Financing is an integral part of vehicle purchase even for luxury cars. For the luxury PV segment, finance penetration is between 70-80%. These dealers facilitate easy financing for their customers through tie-ups with various banks and NBFCs. Representatives of these financial institutions are stationed in the dealerships and help customers avail financing for their vehicle purchase.

For every financing deal done from his dealership, the dealer receives a percentage of the financed amount as his commission or finance pay out, which forms part of his overall revenue. This generally is 0.8-1% of the financed amount. Over and above this, the large dealers can get an additional commission of 0.2-0.5% given the extent of business provided to the financier.

These finance pay outs form ~1% of the dealer revenue.

**Insurance payouts:** When purchasing a new vehicle, the Motor Vehicles Act mandates customers to avail vehicle insurance for any third party involved in case of an accident.

To comply with the same, dealers provide support to customers through various insurance schemes offered by insurance companies registered with the Insurance Regulatory and Development Authority (IRDA). Most of the customers avail insurance through dealers while purchasing a new car. Moreover, most customers also get their insurance renewed from the dealers after the expiry of initial coverage, providing another fillip to dealer revenue, especially for larger dealers who have a significant vintage. Currently, customers have to renew their insurance coverage every year.

In line with finance pay outs, dealers also earn a percentage (16-18%) of premium as a commission from the vehicle insurance done at their dealerships. These commissions form ~1% of dealers’ overall revenue.

**Mass/Premium segment vs Luxury segment:**

Revenue Split	Mass/Premium segment	Luxury segment	Comment
New vehicle sales	68-72%	63-68%	For both mass market/premium vehicle dealers and luxury car dealers, revenue is primarily earned from new vehicle sales. However, luxury dealers have a higher dependence on



			new car sales amidst the restricted pre-owned car sales.
<b>Pre-owned vehicle sales</b>	6-10%	1-6%	Pre-owned luxury car market is in a very nascent stage and it is highly unorganised. Limited presence of luxury vehicle dealers in pre-owned vehicle market restricts the revenue contribution from pre-owned vehicle segment
<b>Service</b>	15-20%	25-30%	Higher preference for authorised workshops helps boost the services revenue for luxury segment. Moreover, spares are also relatively costlier and higher technical expertise is expected of the mechanic pushing the services revenue.
<b>Spares</b>	8-10%	12-17%	
<b>Labour</b>	8-10%	10-15%	
<b>Accessories</b>	2-5%	1-3%	Luxury vehicles typically come loaded with necessary accessories, hence the necessity to purchase additional accessories is relatively lower. However, the few accessories which are added by luxury customers are highly priced pushing the revenue earned from accessories for the dealer.
<b>Finance Commission</b>	~1%	~1%	Commission earned by luxury dealers is relatively lower (0.8-1% vis vis 1-1.5% for mass market/ premium vehicle dealers) given the significantly higher ticket price. Although bigger luxury car dealers can get an additional 0.2-0.5% commission.
<b>Insurance Commission</b>	~1%	~1%	Commission % for luxury car dealers is comparable with mass market/ premium vehicle dealers. Insurance premiums are much higher for luxury vehicles, however, volumes are much lower limiting the revenue earned from insurance commission for dealers.

## Dealer profitability

Margins received from the revenue segments vary significantly. Although vehicle sales dominate overall revenue, returns from the same are among the lowest; on the other hand, service /spares form a relatively smaller share of total revenue but their contribution to overall profits is significant

**Deep dive into the profitability of each revenue segment:**

- **New vehicle sales:** The margin earned by the dealer from new vehicle sales is the per vehicle margin paid by the manufacturer to the dealer. Manufacturers pay dealers a percentage of the vehicle price as a fixed margin. While this margin is decided by the manufacturer and is similar for all the dealers of that particular manufacturer across India, it does vary from manufacturer to manufacturer.

Typically, luxury PV manufacturers offer relatively higher margins to their dealers, given the relatively limited volumes for luxury dealers as well as the extravagant buying experience provided by the dealers.

For mass market/ premium PVs, the per vehicle sales margin hovers around 3-5%, varying marginally from manufacturer to manufacturer. Luxury PV manufacturers provide a relatively higher margin of 6-8% per vehicle.

Over and above this per vehicle margin, manufacturers also offer added incentives to dealers, based on the dealer's performance, the quantum of the vehicles sold by the dealer, target completion, manufacturer market share goals, seasonality, etc. These incentives vary from region to region as well as from dealer to dealer.

For a well-established large dealer, these incentives can provide an additional margin of 3-5% per vehicle, taking the overall margin achieved per vehicle to 5-7% for a normal PV dealer. A luxury vehicle dealer can achieve an 8-10% per vehicle margin, including incentives.

- **Pre-owned vehicle sales:** Most manufacturers offer exchange schemes at their new vehicle sales outlets.

The pre-owned vehicles received in exchange, buy back and lease are typically routed to their pre-owned vehicle sales, where the old vehicles are refurbished and sold to customers. In exchange, luxury dealers also accept mass market/ premium vehicles.

Margins in the pre-owned vehicle sales segment vary significantly from vehicle to vehicle, depending on the vintage and the state of the vehicle being sold. It also depends on the original make of the vehicle. Even in the pre-owned vehicle market, a few brands enjoy higher traction while others are normally avoided. Although these notions are primarily based only on customer brand perceptions, they play a sizeable role in pre-owned vehicle price negotiations.

Margins in this segment are relatively low at around 5%.

- **Service:** The major contributor to dealership revenue is the service segment. Authorised dealers only use OEM-branded or manufacturer-approved genuine parts/ lubricants/ oils. Dealers procure these parts directly from manufacturers/ official distributors and use them in their workshops. Although the dealers get these parts at a discount from the manufacturers, the parts are sold at their MRP, earning 30-35% margin to the dealers.

Nearly 45-50% of the service revenue is earned for the technical expertise of the mechanics in the form of labour. Dealers earn significant margin (70-80%) from the labour revenue as the same mechanics work on multiple cars at any point of time.

Here, the larger dealers get an edge over the smaller counterparts, as economies of scale play in their favour and these dealers can earn much higher margin given the higher quantum of vehicles serviced per mechanic.

Overall from the service segment, dealers earn 50-60% profit, making it the one of the most profitable segments for the dealer.

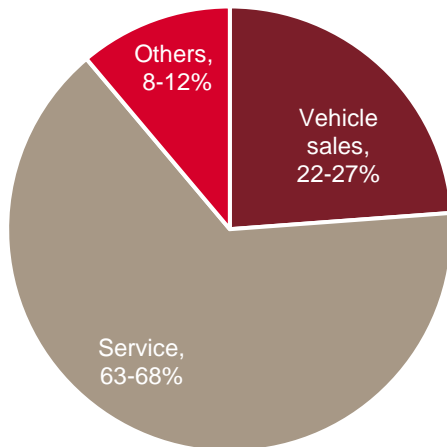
- **Accessories:** Dealers procure OE-branded accessories like seat covers, floor mats and wheel covers from the manufacturer, while the other accessories like electronics are procured from branded suppliers.

This is another high-margin segment for the dealers, with margins between 20% to 30% on some products.

- **Finance/ Insurance pay outs:** These are relatively smaller segments for dealer revenue, contributing 1-2% combined for luxury PV dealers. This revenue is a percentage commission earned by the dealer for facilitating the finance or insurance scheme opted for by the customer.

These payouts do not warrant any notable additional expenses from the dealer and directly contribute to dealer profitability.

### Typical segment-wise share in gross profits



*Note: Vehicle sales include new & pre-owned PV sales, others include Accessories, finance pay out, insurance pay out*

*Source: Industry, CRISIL Research*

The service segment is the primary contributor, contributing 63-68% to the dealer profitability. Dealers with a higher dependence on vehicle sales are at a disadvantage, given the much lower profitability margins earned from vehicle sales, compared with service which provides a 50-60% margin.

Moreover, under unforeseen circumstances like the pandemic, when significant uncertainty was looming over vehicle sales, regular servicing /repair/ spare sales provided a much-needed breather to the dealers.

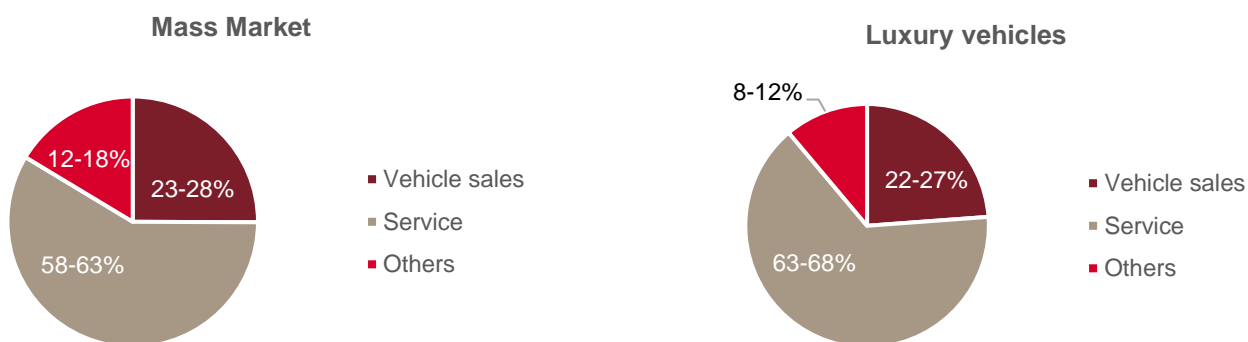
Even in the longer run, dealers with a greater focus on the service segment are expected to have an edge over others.

**Mass/Premium segment vs Luxury segment:**

Profitability share	Mass/Premium segment		Luxury segment		Comment
	Segment margin	Share in Total profit	Segment margin	Share in Total profit	
<b>New vehicle sales</b>	5-7%	<b>23-28%</b>	8-10%	<b>22-27%</b>	Per vehicles margins are relatively higher for luxury dealers. Thus contributing slightly higher in profitability. Moreover, higher share of new vehicle sales provides additional kicker.
<b>Pre-owned vehicle sales</b>	5-10%	<b>2-7%</b>	4-6%	<b>1-5%</b>	In the luxury car segment, margins are relatively lower given the higher depreciation in the vehicle price and lack of organised market. However, in terms of actual quantum, the earning per vehicle of luxury car dealers is higher given the much higher ticket price of vehicles.
<b>Service</b>	45-55%	<b>58-63%</b>	50-60%	<b>63-68%</b>	Spares are much costlier in luxury car segment and dealers also earn higher on spares compared to mass market/premium car dealers. Profitability is comparable on labour.  Share in overall profitability is slightly higher for luxury segment.
<b>Spares</b>	20-30%	<b>10-15%</b>	30-35%	<b>23-28%</b>	
<b>Labour</b>	60-80%	<b>45-50%</b>	70-80%	<b>30-40%</b>	
<b>Accessories</b>	15-25%	<b>2-5%</b>	20-30%	<b>1-3%</b>	Luxury vehicles typically come loaded with necessary accessories, hence the necessity to purchase additional accessories is relatively lower. However, the few accessories which are added by luxury customers are highly priced and dealers earn relatively more on those accessories.

<b>Finance Commission</b>	90-100%	<b>4-6%</b>	90-100%	<b>2-5%</b>	Dealers do not have to spend anything additional for earning this commission barring basic facilities provided to the banker.  Share in revenue is slightly lower in case of luxury vehicles limiting profitability contribution.
<b>Insurance Commission</b>	90-100%	<b>4-6%</b>	90-100%	<b>2-5%</b>	Dealers do not have to spend anything additional for earning this commission barring basic facilities provided to the insurer.  Share in revenue is slightly lower in case of luxury vehicles limiting profitability contribution.

### Typical segment-wise share in gross profits



Note: Vehicle sales include new & pre-owned PV sales, others include Accessories, finance pay out, insurance pay out

Detailed section is covered on page 60 and page 70

Source: Industry, CRISIL Research

### Dealership growth drivers

- Estimated growth in new PV sales:** Improvement in economic scenario, expected GDP growth, subdued inflation, improvement in disposable income, intermittent vehicle launches, expanding financing support is expected to provide a push to the new PV industry sales. This growth in sales will provide a boost to the dealer revenues going ahead.

New launches planned by OEMs in the luxury space is expected to accelerate the sales growth.

- Continued traction for pre-owned vehicles:** Pre owned vehicles sales contribute 5-10% of the dealership revenue. Pre-owned vehicle sales have grown at a high CAGR of 13-14% during fiscal 2017-fiscal 2022 period.

Going ahead, rising aspirations of customers, growing disposable income, lowering replacement cycles and increasing financial penetration will drive the segment growth. Moreover, the facilitating digital technology is

helping dealers provide added transparency in vehicle valuation and price discovery aiding customer confidence and in turn increasing customer retention for dealers.

- **Rise in average vehicle prices:** Dealers get a % of the vehicle price as their contribution in selling the vehicle. Increase in vehicle prices translate into increased revenue for the dealers.

OEMs undertake an annual vehicle price hike every year to compensate for the rise in material costs. Moreover, prices are also increased to comply with the changing safety and emission norms. CRISIL Research expects the average price hike to continue going ahead with tradition annual price hike as well as price increase to accommodate the safety and emission norms.

Increase in share of the costlier hybrid and electric vehicles will provide an additional fillip to the vehicle prices.

- **Shift towards authorized workshops:** Services segment plays a major role for a dealership. It contributes 25-30% to the dealer revenues and 63-68% to the dealer profits.

Many customers use authorised workshops as long as the vehicle is under warranty. Once the warranty lapses, roadside mechanics are preferred over authorised dealership workshops. This tendency is more prominent amongst the mass market/premium vehicle segment. However, the customer preference for authorised workshops is slowly increasing with increase in latest tech being used in the new age vehicles.

These vehicles require higher technical expertise as well as latest tech infrastructure to repair which most local mechanics lag. Thus, higher number of customers have to depend on the authorised workshops for maintenance and repair of their vehicles. Moreover, dealers also offer attractive extended warranty / AMC schemes to the customers incentivising them to opt for an authorised dealership.

This is expected to provide traction to the dealers service revenue growth in the longer term. Additionally, the cost of repairing the latest vehicles including components are relatively costlier providing an additional kicker to the dealer revenue growth.

- **Rising financial penetration:** Increasing support from financiers, subdued interest rates, rising LTV is expected to augment finance penetration levels.

This is expected to aid dealership revenue two folds, one by bringing newer customers into the market backing dealership revenue growth and second by providing an additional revenue from the financing commission dealers earn on the financed amount.

- **Digital technology aiding revenue & margin growth:** Digital advancement is supporting the automotive dealership in customer outreach, improving customer buying experience, increased transparency and customer retention. In turn, it is helping dealers expand their reach and maintain customer connect indirectly boosting dealer revenues. Facilitating technology enabled services and digital offerings is leading to better customer satisfaction and increased customer retention. Moreover, it is also helping optimize dealership costs and reduce their overheads strengthening dealership margins.

CRISIL Research expects the digital medium to continue to provide support to the dealership operations and play a larger role going forward.

## Dealer returns

EBITDA (earnings before interest, taxes, depreciation and amortisation) margins for luxury dealers are typically in the range of 6-8%. Large dealers, given higher economies of scale, operate at 7-9% margins, while smaller dealers operate at 3-5%.

Return on capital employed (ROCE) for luxury PV dealers is generally in the range of 8-13% (as per FY21 performance). With estimated improvement in luxury vehicle sales, some improvement is expected in the dealer returns going ahead.

## Added advantage for large luxury dealers

Large luxury dealers, given the sheer size of the business, receive added benefits as well as higher economies of scale backing their better finances. A few of the major advantages are:

- **Better negotiation with manufacturers:** Large dealers enjoy higher bargaining power, as compared with smaller dealers, helping them bag better deals with manufacturers, thus boosting their profitability. Moreover, large dealers also get higher incentives per vehicle with the higher number of vehicles sold aiding their profitability further.
- **Better deals with vendors:** While procuring supplies like tyres, paint and spares from other vendors, large dealers have an edge over their smaller counterparts, ensuring higher profitability.
- **Greater share of service revenue:** Bigger dealers typically have a large number of sales outlets and an even larger number of workshops catering to the repair & service segment. This enables them to serve a higher number of vehicles, boosting their high-margin service revenue. For large dealers, the service to sale ratio, or the number of vehicles serviced to number of vehicles sold, can be in the range of (50): 1, whereas for smaller dealers this ratio is much flatter. Moreover, their service centres are highly automated with larger spares inventory, helping large dealers provide faster as well as better customer service. With the fast increasing advancements in vehicles, larger dealers with an exhaustive, IT-backed, state-of-the-art set-ups will be able to service new-age vehicles, providing a-boost to their service segment revenue in the longer term.
- **Better insurance/ finance deals:** Dealers earn a percentage of financed amount/ insurance premium as commission from financiers/ insurance companies. The percentage earned as commission varies from dealer to dealer, depending on the volume of customers generated for the service providers. Hence, bigger dealers enjoy leverage over their smaller counterparts because of the much larger number of customers provided to the service providers.
- **Higher customer retention:** Bigger dealers provide a better buying experience to their customers, offering a relatively lavish ambience, individual attention, better bargains, including higher dealer discounts, faster delivery, wider accessory choices, immediate availability for accessories/spares, value-added services like customisation, vehicle detailing, paint protection, etc. During the Covid-19 pandemic, amidst restrained public movement, many large dealers provided home delivery of vehicles as well. All these benefits help bigger dealers retain a large share of their customers, ensuring long-term sales growth.
- **Higher enquiry generation:** Bigger dealers typically have a large call centre connecting with potential customers and following up with existing customers. These call centres provide a wider network coverage and better customer reach across platforms. This helps larger dealers generate more leads and, in turn, generate higher sales. These initiatives were especially helpful during the pandemic when most dealerships were closed, limiting walk-in enquiry generation.
- **Value-added services:** Over and above the normal services and accessories, dealers, especially the large ones, provide value-added services to their customers. These include services like interior/ exterior anti-rust treatment, body beautification, exterior paint polish treatment, vinyl floor mat fixing, fabric cleaning, etc., which generated additional revenue for the dealer. These are high-margin services and contribute significantly to dealer profits.
- **Multiple brand dealerships at single location:** Large dealers also get benefitted from opening multiple brand dealership (across brands, across vehicle segments mass market/ premium / luxury PV/ CV) at a single location.

Sharing of infrastructure, parking space, workshop brings in additional cost efficiencies bringing the overall costs down.

**Others:** Large dealers also benefit from centralisation of their services as well as better utilisation of their shared services like call centres, IT backend services, HR, admin, etc.

### New Retail business model to support dealers

In June 2021, Mercedes Benz India announced a new customer centric retail model '*Retail of the future*' (ROTF) where customers will buy the vehicles directly from the company. In this direct sales model, customer will have an access to the complete inventory of vehicles at the centralized company warehouse, thus, widening vehicle pool for the customers in terms of trims or colours.

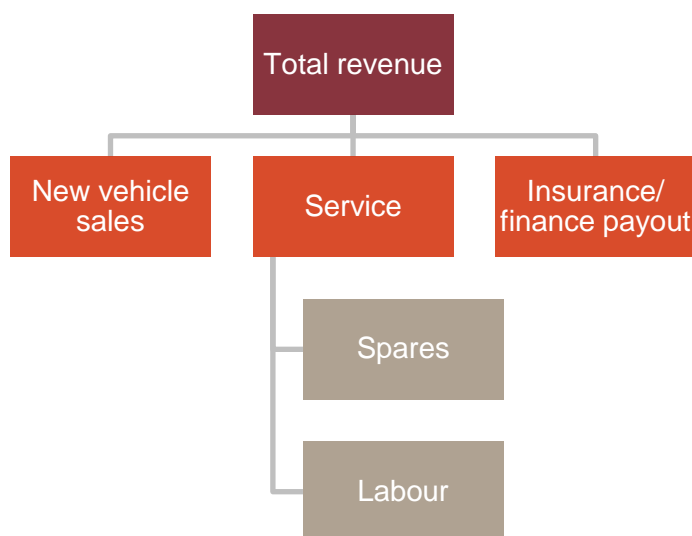
Moreover, this model promises to increase the transparency in overall car buying process for customers as well as dealers/ franchise partners.

The dealers are also expected to get benefitted by the new model as they will not have to stock vehicle inventory and thus will be shielded from market risks. Additionally, the zero-inventory model will boost the working capital of the dealerships, making their businesses financially more viable and profitable.

ROTF model has been rolled out by the company from October 1, 2021, and has received favourable response from the customers. Dealers have been receiving commissions from Mercedes instead of the per vehicle margin as per the previous model.

### CV dealership landscape

For a typical CV dealership, there are three major revenue streams.



**Vehicle sales:** Selling of vehicles is the primary business for any dealership and forms the dominant share in overall dealership revenue, earned primarily from the sale of new vehicles.

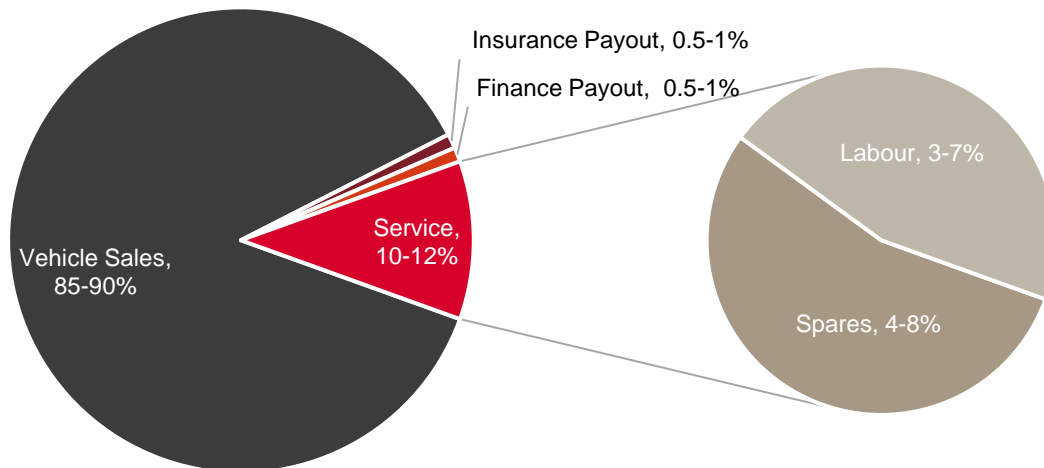
In the CV industry, the sale of pre-owned vehicles is mainly undertaken by independent brokers, and its contribution to CV dealers is insignificant. Given the high running cost and extended replacement cycles in this



industry, the association of pre-owned vehicle dealerships with new vehicle dealerships is relatively uncommon. Nonetheless, a few manufacturers introduced a vehicle exchange option in the last few years, but there were not many takers.

According to CRISIL Research, for a typical CV dealership, 85-90% of revenue is contributed by new vehicle sales.

**Typical revenue break-up for a CV dealer**



Source: Industry, CRISIL Research

**Services:** Income from the services segment is another major source of revenue for the dealer. Service is a highly profitable and perceptible growth segment for a dealer.

The services segment can be divided into two major sub-segments: spares and labour. Revenue from the sale of automotive components, parts, lubricants, etc. for vehicle repair or maintenance is considered spares revenue. Labour revenue represents the amount charged for the effort or technical expertise provided for vehicle repair. For CV dealers, labour contributes 45-50% of services revenue, and spares the rest.

In CV dealerships, income from services is relatively limited to only 10-12% of overall revenue. Fleet operators normally use authorised workshops only during the AMC (annual maintenance contract) period, and thereafter prefer their own workshops or non-authorised mechanics.

CRISIL Research, however, expects the share of revenue from services to expand on the back of increased demand for technical expertise to repair the latest advanced vehicles – only authorised dealerships can provide this.

Over the years, for a safer, more efficient drive, the use of electronic engine control unit and various sensors in CVs has surged. Moreover, the implementation of emission norms, BS-IV and BS-VI, has propelled the use of sophisticated technology in vehicles.

As diesel vehicles are more polluting than their petrol counterparts, they witnessed a significant upgradation to comply with stringent emission norms. Thus, the impact of increased engine complexity and advanced active emissions control technology systems (e.g. selective catalytic reduction technology) was more pronounced on CVs, which are solely diesel vehicles.

These technological advances, however, necessitate sophisticated IT-backed tools to repair vehicles. Thus, in such cases, non-authorised mechanics can provide only limited assistance. With more customers opting for authorised workshops, CV dealers' services revenue will receive a boost.

**Finance payout:** Financing of vehicles is an integral part of vehicle purchase. For the CV segment, finance penetration is above 95%. CV dealers facilitate easy financing to their customers through tie-ups with various financial institutions. Representatives of these financial institutions are stationed at the dealerships and help customers avail financing for their vehicle purchase.

For every financing deal, the vehicle dealer receives a percentage of the financed amount as commission or finance payout – this contributes 0.5-1% of dealer revenue.

**Insurance payout:** While purchasing a new vehicle, the Motor Vehicles Act requires customers to purchase vehicle insurance as well. Dealers provide support to customers through various insurance schemes offered by insurance companies registered with the Insurance Regulatory and Development Authority.

As in the case of finance payout, the dealer earns a percentage as commission from vehicle insurance purchased at the dealership – this contributes 0.3-1% of dealer revenue.

However, many fleet operators have their own tie up with insurance companies and they do not avail these dealer services.

## **Dealership additions**

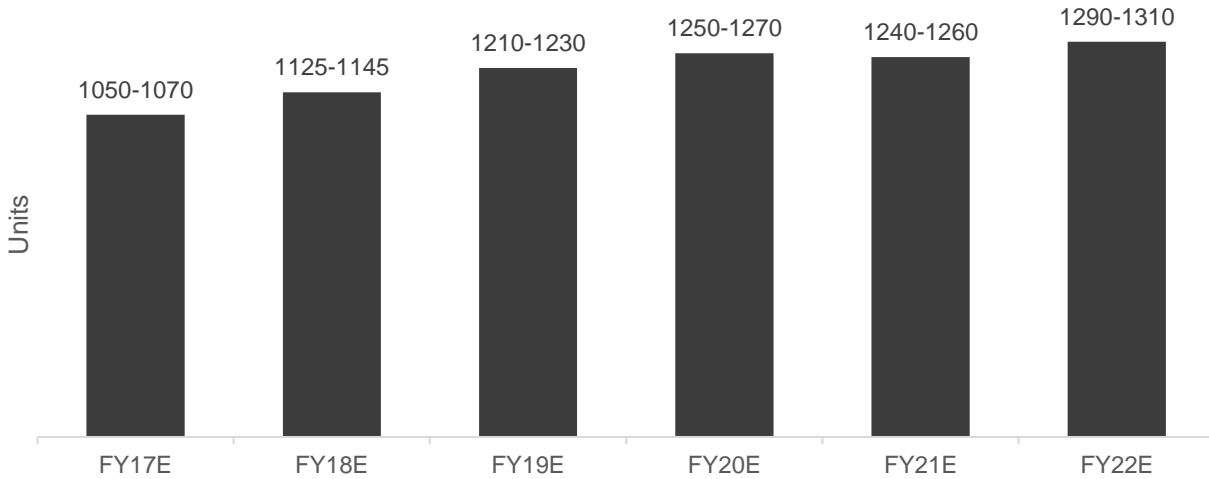
CV dealerships form 8-10% of overall dealerships in India and contribute ~15% of overall touchpoints.

Between fiscals 2017 and 2019, manufacturers expanded their dealerships at 6-8% CAGR to cater to the healthy growth in domestic sales (19% CAGR over the same period). Expansion was done at a faster pace in fiscals 2016 and 2017 in anticipation of high demand, given the consecutive above 8% growth in GDP. Dealership expansion was spearheaded by market leader Tata Motors to strengthen its foothold, especially in southern India.

During fiscal 2021, pandemic and the slowing sales impacted business of many dealers. Few dealers had to close their dealerships during the year. However, in fiscal 2022, with increased inoculations, waning of the pandemic, improvement in economy, normalized market conditions, sales improved. OEMs expanded their network during the year.

This expansion in the dealerships during fiscal 2022 was primarily done in SCV/LCV segment by Tata Motors and Ashok Leyland.

## Number of dealerships

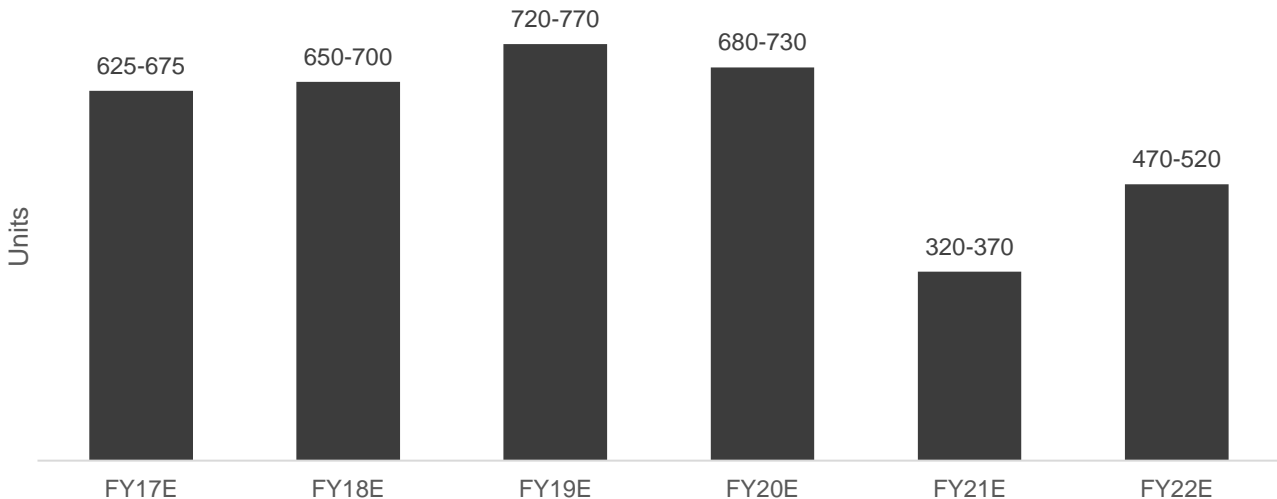


Source: Industry, CRISIL Research

## Average dealership sales

In line with the increased sales during the year, average sales per dealership also received some boost during the fiscal 2022.

### Average sales per dealership for CV dealers



Note: These represent average retail sales per dealership, which are 3x of the average sales per touchpoint

Source: Industry, SIAM, CRISIL Research

## Dealer profitability

Margins from the revenue segments vary significantly. Vehicle sales dominate overall revenue, but their returns are among the lowest. The spares and labour sub-segments have a relatively small share in overall revenue, but their contribution to profits is significant.

### Profitability of revenue segments:

- **New vehicle sales:** Margin earned from new vehicle sales is the per vehicle margin paid by the manufacturer to the dealer. The manufacturer pays a fixed margin to the dealer as a percentage of the vehicle price. This margin is decided by the manufacturer and is similar for all the dealers of that particular manufacturer across India.

For CVs, per vehicle margin hovers around 2-4%. M&HCVs have higher margin than LCVs. Over and above this per vehicle margin, the manufacturer offers incentives to the dealer based on dealer performance, quantum of vehicles sold by the dealer, target completion, manufacturer market share goals, seasonality, etc. These incentives vary between regions and dealers.

For a well-established large dealer, these incentives can provide additional margin of 2-4% per vehicle. This can take the overall margin per vehicle to 4-6% for a normal CV dealer.

- **Services:** Another primary contributor to dealership revenue is the services segment. Unlike vehicle sales, this segment is a high-margin one for dealers and contributes significantly to overall dealer profitability.

Dealers use only OEM branded or manufacturer-approved genuine parts/ lubricants/ oils. Dealers procure these directly from manufacturers. Given the high number of parts used by dealer workshops, dealers also receive discounts on them. For a CV dealer, margin of the spares sub-segment is normally in the range of 15-20%.

For the other major sub-segment, labour, dealer expense is limited to salary and benefits given to workers in the workshop. One mechanic works on a number of vehicles simultaneously, thus reducing the per vehicle spend of the dealer. This sub-segment is the most profitable for the dealer, with margin typically around 70%.

For the services segment, overall margins are in 45-50% range.

- **Finance/ insurance payout:** This is a relatively small segment. It contributes only 1-1.5% of revenue for PV dealers. The segment's revenue is commission earned by dealers for facilitating finance or insurance schemes opted by customers.

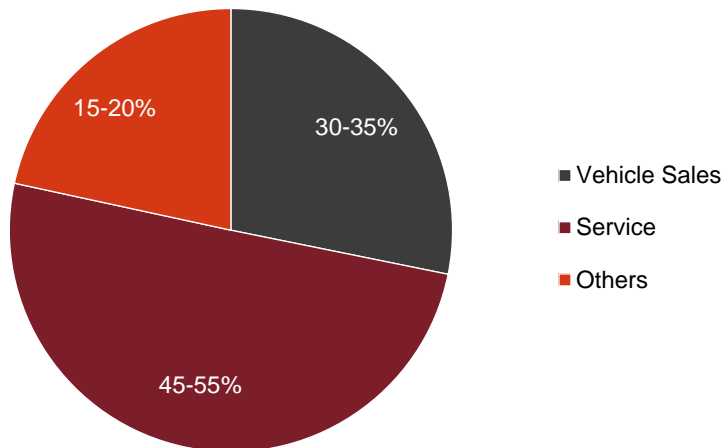
This does not warrant any notable additional expenses from the dealer, and the payout contributes directly to dealer profitability.

For CV dealers, vehicle sales dominate dealership revenue – contribution of vehicle sales to revenue is higher for CV dealers than PV dealers. The second-largest contributor, the services segment, has a much lower share.

However, dealer margin for the services segment (including spares) is 40-50% higher than the 2-4% margin for vehicle sales (not including incentives). Thus, the services segment continues to contribute significantly to dealers' profitability despite having a much lower share in revenue.

Dealers' margins for vehicle sales typically vary with the average dealer sales revenue as the per vehicle margin remains almost steady. However, contribution from the services segment, a significant share in dealer profitability, can vary considerably between dealers, in line with their focus on this segment.

### Typical segment-wise share in gross profit



Source: Industry, CRISIL Research

Contribution of the services segment significantly influences the dealer's profitability. The higher the share of services in the dealer's revenue, the higher are the chances of increased profitability.

### Dealer Returns

CV dealers have relatively high fixed costs given the larger size of their workshops and the higher inventory costs. Also, they have limited room to add value in the end-product, which limits their EBITDA margins in a modest range of 2-3%. Limited contribution from the high-margin services segment also restricts their margins.

For large dealers, given their higher economies of scale, EBITDA margins are relatively high. Meanwhile, smaller dealers face stiff competition from larger players, which limits their bargaining power and impacts margins. Moreover, higher exposure of smaller dealers to the low-margin LCV segment limits their returns. Higher discounts offered by large dealers exert some pressure on their margins.

Compared with PV dealers, CV dealers have lower ROCE in the range of 10-12% (as per FY21 performance) given higher investment required to set up CV dealerships. For large dealers, ROCE is typically 15% and above, while for smaller dealers it is normally below 10%.

Returns for CV dealers have declined in the last two years amidst a sharp reduction in average dealership sales. CRISIL Research expects some improvement in returns going forward, with potential improvement in sales and services revenue.

### Dealership growth drivers

- **Estimated growth in new CV sales:** Rising domestic consumption, improving rural incomes, increasing exports (through realignment of global supply chains and the government's production-linked-incentive scheme), government's focus on infrastructure investments (through the NIP), and initiation of commercial mining in India are likely to steer growth for the CV industry sales. CRISIL Research expects the industry to clock 10-12% CAGR from fiscal 2022 to reach 1180-1190 thousand vehicles by fiscal 2027. Roll out of the scrappage policy would further aid domestic CV demand.

- **Rise in average vehicle prices:** Dealers get a % of the vehicle price as their contribution in selling the vehicle. Increase in vehicle prices translate into increased revenue for the dealers.

OEMs undertake an annual vehicle price hike every year to compensate for the rise in material costs.

Moreover, prices are also increased to comply with the changing safety and emission norms. CRISIL Research expects the average price hike to continue going ahead with tradition annual price hike as well as price increase to accommodate the safety and emission norms.

Increase in share of the costlier CNG, hybrid and electric vehicles will provide an additional fillip to the vehicle prices.

- **Shift towards authorized workshops:** Services segment plays a major role for a dealership. It contributes 10-12% to the dealer revenues and 45-55% to the dealer profits. Many customers use authorised workshops as long as the vehicle is under warranty. The customer preference for authorised workshops is increasing with increase in latest technological gadgets being used in the new age vehicles.

These vehicles require higher technical expertise as well as latest tech infrastructure to repair which most local mechanics lag. Thus higher number of customers have to depend on the authorised workshops for maintenance and repair of their vehicles. Moreover, dealers also offer attractive extended warranty / AMC schemes to the customers incentivising them to opt for an authorised dealership.

This is expected to provide traction to the dealers' service revenue growth in the longer term. Additionally, the cost of repairing the latest vehicles including components are relatively costlier providing an additional kicker to the dealer revenue growth.

- **Rising financial penetration:** Increasing support from financiers, subdued interest rates, rising LTV is expected to augment finance penetration levels.

This is expected to aid dealerships by providing an additional revenue from the financing commission dealers earn on the financed amount.

- **Digital technology aiding revenue & margin growth:** Digital advancement is supporting the automotive dealership in customer outreach, improving customer buying experience, increased transparency and customer retention. In turn, it is helping dealers expand their reach and maintain customer connect indirectly boosting dealer revenues. Moreover, it is also helping optimize dealership costs and reduce their overheads strengthening dealership margins.

CRISIL Research expects the digital medium to continue to provide support to the dealership operations and play a larger role going forward.

## Added advantages for large dealers

Large dealers, given the size of their business, receive added benefits and have higher economies of scale. A few of the major advantages for them are as follows:

- **Better negotiation with manufacturers:** Large dealers enjoy higher bargaining power than smaller dealers, which helps them bag better deals with manufacturers. Moreover, large dealers get higher incentive per vehicle due to the higher number of vehicles sold
- **Better deals with vendors:** While procuring supplies such as tyres, paint and spares from vendors, large dealers have an edge over their smaller counterparts
- **Higher share of services revenue:** Along with a high number of sales outlets, large dealers also have many workshops catering to the services segment. For large dealers, the services-to-sales ratio, i.e. the number of vehicles serviced to the number of vehicles sold, can be 10-15:1, whereas for smaller dealers this ratio is much flatter. Moreover, service centres of large dealers are highly automated and have higher spares inventory levels,

helping them provide faster and better service to customers. With OBD II and major upgradations for BS-VI compliance, the CV segment is going through a major technological upgrade. Going forward, large dealer workshops armed with latest IT-backed instruments will be able to service and repair new-age vehicles, providing a boost to high-margin services revenue

- **Better insurance/ finance deals:** Dealers earn a percentage of financed amount/ insurance premium as commission from financial institutions/ insurance companies. The percentage varies between dealers depending on the volume of customers provided to the service providers. Hence, large dealers benefit more than their smaller counterparts
- **Higher customer retention:** Compared with smaller dealers, large dealers can offer higher discounts to customers over and above the discounts offered by manufacturers. For typical CV customers and fleet owners, discounts are important selection criteria given the minimal scope of value addition in CVs. Thus, these discounts helps large dealers retain their customer base
- **Multiple brand dealerships at single location:** Large dealers also get benefitted from opening multiple brand dealership (across brands, across vehicle segments mass market/ premium / luxury PV/ CV) at a single location. Sharing of infrastructure, parking space, workshop brings in additional cost efficiencies bringing the overall costs down.
- **Others:** Large dealers also benefit from centralisation of their services, and better utilisation of their shared services such as call centres, IT backend services, human resources, and admin.

## 7. Player comparison

The below tables compare a few of the noteworthy large PV and CV dealership groups in India. Most of these groups have dealerships of multiple OEMs, comprising the PV, luxury PV and CV segments.

Player dominance varies with vehicle segment and OEMs. Group Landmark is one of the leading premium automotive retail business dealership groups in India. Group Landmark was the top contributor for Mercedes Benz<sup>1</sup> retail sales in India for fiscal 2022 and number one dealer in India for Honda Cars<sup>1</sup> and Jeep<sup>1</sup> in terms of wholesale sales for the fiscal. The group also contributed the most for Volkswagen<sup>1</sup> retail sales in India for CY2021.

Group Landmark was also the third largest dealership for Renault India<sup>1</sup> in terms of wholesale sales contribution for CY2021.

In Fiscal 2022, Group Landmark contributed 15.8% to retail sales of Mercedes-Benz, 5.8% to wholesale sales of Honda, 8.7% to wholesale sales of Volkswagen, 26.8% to wholesale sales of Jeep and 5.1% to wholesale sales of Renault.

### Player-wise OEM presence

		Landmark Cars Pvt Ltd	Advaith Motors	AMPL	Deutsche Motoren	Jubilant	Kataria Automobiles	KUN Auto Company	KUN Motor Company	Navnit Motors
PV	Maruti			✓			✓			✓
	Hyundai		✓					✓		
	Mahindra			✓						
	Honda	✓								
	Renault	✓								
	VW	✓								
	Jeep	✓								
	MG					✓				
	JLR									✓
	Mercedes	✓	✓							
	BMW				✓				✓	✓
	Audi					✓				
	Ferrari									✓
	Mini				✓				✓	✓
	Porsche						✓			✓
Rolls Royce								✓		
BYD	✓									
CV	Tata (CV)									
	BharatBenz						✓			
	Ashok Leyland	✓		✓						
<b>No. of Brands</b>		<b>7</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>6</b>



Note: AMPL- Automotive manufacturers Pvt Ltd.; Jubilant- Jubilant Motorworks Pvt Ltd.

1 Based on the written confirmation from respective OEMs.

Source: Industry, company website, CRISIL Research

**Player-wise financial comparison (fiscal 2021)**

	Landmark Cars Pvt Ltd	Advaith Motors	AMPL	Deutsche Motoren #	Jubilant	Kataria Automobiles	KUN Auto Company	KUN Motor Company #	Navnit Motors
Year of commencement	1998	1998	1948	2007	2009	1984	1998	2006	1994
Mass/Premium	✓	✓	✓		✓	✓	✓		✓
Luxury	✓	✓		✓	✓	✓		✓	✓
CV	✓		✓			✓			
Outlets	50+	50+	50+	3+	5+	95+	7+	10+	15+
Opr Rev. (Rs bn)	19.6	13.5	39.3	1.4	1.0	19.8	13.8	9.1	6.4
Opr Rev 3 yr CAGR	7%	(3) %	(13) %	(33) %	(40) %	(5) %	3%	9%	(19) %
EBITDA margin (%)	6.1%	1.9%	2.8%	13.6%	22.2%	4.4%	4.8%	6.6%	3.7%
Net profit ratio (%)	0.6%	(1.0) %	0.1%	5.3%	7.1%	0.7%	1.7%	3.4%	(1.9) %
D/E	1.8	3.1	0.3	1.9	1.1	3.2	2.1	0.5	NM

Note: # : Data as of fiscal 2020, fiscal 2021 data is not available, \*\*:Automark Motors, Landmark Automobile, Landmark Commercial Vehicles were not part of Landmark Cars Pvt Ltd in FY18 whereas these entities were consolidated in fiscal 2020 financial statements of Landmark Cars Pvt Ltd

Net profit ratio / PAT margin has been calculated as Net profit/ Total revenue.

Source: MCA, CRISIL Research

### Global Players (CY 2021)

Particulars	Lookers	Pendragon	Group 1 automotive	Penske Automotive	Autonation	Zhongsheng Group Holding	China MeiDong Auto Holding
Headquarter	UK	UK	USA	USA	USA	China	China
Presence	UK, Ireland	UK, USA	US, UK, Brazil	USA, UK, Canada, Europe, Aus, NZ	USA	China	China
Outlets	144	149	186	320	320+	386	63
New vehicle sales	89,967	NA	1,46,072	1,95,384	2,62,403	NA	NA
Pre-owned vehicles sales	83,000+	NA	2,01,343	2,64,520	3,04,364	NA	NA
Revenues (Bn USD)	5.5	4.7	13.5	25.5	25.8	27.1	3.6
New Vehicles	2.5	1.9	6.5	11.1	12.1	NA	3.3
Pre-Owned	2.8	2.3	4.8	9.7	8.6	NA	NA
Others	0.2	0.5	2.2	4.7	5.1	NA	0.3
EBITDA margin (%)	4.1	4.9	7.2	4.9	8.1	6.3	7.6
Net profit ratio (%)	1.5	1.8	4.1	4.7	5.4	4.7	4.9

Source: Company SEC filing Reports, CRISIL Research

Globally the large dealerships have relatively higher EBITDA margins as well as Net profit ratio/ PAT margins compared to their smaller counterparts. The economies of scale, cost optimization and better bargaining power gives larger dealerships an edge over smaller players.

These players also have a significant contribution (30-50%) from their pre-owned vehicles business.

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